# Bershire Hathaway Inc.

## Letter to the Shareholders

# 2009

# To the Shareholders
# of Bershire Hathaway Inc.

"Berkshire has adhered to these principles for decades and will continue to do so long after I'm gone

Our gain in net worth during 2009 was $21.8 billion, which increased the per-share book value of both our Class A and Class B stock by 19.8%. Over the last 45 years (that is, since present management took over) book value has grown from $19 to $84,487, a rate of 20.3% compounded annually.* Berkshire's recent acquisition of Burlington Northern Santa Fe (BNSF) has added at least 65,000 shareholders to the 500,000 or so already on our books. It's important to Charlie Munger, my long-time partner, and me that all of our owners understand Berkshire's operations, goals, limitations and culture. In each annual report, consequently, we restate the economic principles that guide us. This year these principles appear on pages 89-94 and I urge all of you – but particularly our new shareholders – to read them. Berkshire has adhered to these principles for decades and will continue to do so long after I'm gone.

In this letter we will also review some of the basics of our business, hoping to provide both a freshman orientation session for our BNSF newcomers and a refresher course for Berkshire veterans.

# Business Activities

**Berkshire Hathaway Inc.** is a holding company owning subsidiaries that engage in a number of diverse business activities including property and casualty insurance and reinsurance, utilities and energy, freight rail transportation, finance, manufacturing, services and retailing. Included in the group of subsidiaries that underwrite property and casualty insurance and reinsurance is GEICO, the third largest private passenger auto insurer in the United States and two of the largest reinsurers in the world, General Re and the Berkshire Hathaway Reinsurance Group. Other subsidiaries that underwrite property and casualty insurance include National Indemnity Company and affiliated insurance entities, Medical Protective Company, Applied Underwriters, U.S. Liability Insurance Company, Central States Indemnity Company, Kansas Bankers Surety, Cypress Insurance Company, BoatU.S. and several other subsidiaries referred to as the "Homestate Companies."

MidAmerican Energy Holdings Company ("MidAmerican") is an international energy holding company owning a wide variety of operating companies engaged in the generation, transmission and distribution of energy. Among MidAmerican's operating energy companies are Northern Electric and Yorkshire Electricity; MidAmerican Energy Company; Pacific Power and Rocky Mountain Power; and Kern River Gas TransmissionCompany and Northern Natural Gas. In addition, MidAmerican owns HomeServices of America, a real estate brokerage firm. Burlington Northern Santa Fe Corporation ("BNSF"), acquired by Berkshire on February 12, 2010, operates one of the largest railroad systems in North America. In serving the Midwest, Pacific Northwest and the Western, Southwestern and Southeastern regions and ports of the U.S., BNSF transports a range of products and commodities derived from manufacturing, agricultural and natural resource industries.

Berkshire's finance and financial products businesses primarily engage in proprietary investing strategies (BH Finance), commercial and consumer lending (*Berkshire Hathaway Credit Corporation* and *Clayton Homes*) and transportation equipment and furniture leasing (*XTRA* and *CORT*). *McLane Company* is a wholesale distributor of groceries and nonfood items to discount retailers, convenience stores, quick service restaurants and others. *The Marmon Group* is an international association of approximately 130 manufacturing and service businesses that operate independently within diverse business sectors. *Shaw Industries* is the world's largest manufacturer of tufted broadloom carpet.

Numerous business activities are conducted through Berkshire's other manufacturing, services and retailing subsidiaries. *Benjamin Moore* is a formulator, manufacturer and retailer of architectural and industrial coatings. *Johns Manville* is a leading manufacturer of insulation and building products. *Acme Building Brands* is a manufacturer of face brick and concrete masonry products. *MiTek Inc.* produces steel connector products and engineering software for the building components market. *Fruit of the Loom, Russell, Vanity Fair, Garan, Fechheimer, H.H. Brown Shoe Group* and *Justin Brands* manufacture, license and distribute apparel and footwear under a variety of brand names. *FlightSafety International* provides training to aircraft operators. *NetJets* provides fractional ownership programs for general aviation aircraft. *Nebraska Furniture Mart, R.C.Willey Home Furnishings, Star Furniture* and *Jordan's Furniture* are retailers of home furnishings. *Borsheims, Helzberg Diamond Shops* and *Ben Bridge Jeweler* are retailers of fine jewelry.

In addition, other manufacturing, service and retail businesses include: *The Buffalo News*, a publisher of a daily and Sunday newspaper; *See's Candies*, a manufacturer and seller of boxed chocolates and otherconfectionery products; *Scott Fetzer*, a diversified manufacturer and distributor of commercial and industrial products; *Albecca*, a designer, manufacturer and distributor of high-quality picture framing products; *CTB International*, a manufacturer of equipment for the livestock and agricultural industries; *International Dairy Queen*, a licensor and service provider to about 5,800 stores that offer prepared dairy treats and food; *The Pampered Chef*, the premier direct seller of kitchen tools in the U.S.; *Forest River*, a leading manufacturer of leisure vehicles in the U.S.; *Business Wire*, the leading global distributor of corporate news, multimedia andregulatory filings; *Iscar Metalworking Companies*, an industry leader in the metal cutting tools business; *TTI, Inc.*, a leading distributor of electronic components and *Richline Group*, a leading jewelry manufacturer.

Operating decisions for the various Berkshire businesses are made by managers of the business units. Investment decisions and all other capital allocation decisions are made for Berkshire and its subsidiaries by Warren E. Buffett, in consultation with Charles T. Munger. Mr. Buffett is Chairman and Mr. Munger is Vice Chairman of Berkshire's Board of Directors.

## BERKSHIRE'S CORPORATE PERFORMANCE VX THE S&P 500

| Year | Annual Percentage Change | | |
|---|---|---|---|
| | in Per-Share Book Value of Berkshire (1) | in S&P 500 with Dividends Included (2) | Relative Results (1)-(2) |
| 1965 | 23.8 | 10.0 | 13.8 |
| 1966 | 20.3 | (11.7) | 32.0 |
| 1967 | 11.0 | 30.9 | 19.9) |
| 1968 | 19.0 | 11.0 | 8.0 |
| 1969 | 16.2 | (8.4) | 24.6 |
| 1970 | 12.0 | 3.9 | 8.1 |
| 1971 | 16.4 | 14.6 | 1.8 |
| 1972 | 21.7 | 18.9 | 2.8 |
| 1973 | 4.7 | (14.8) | 19.5 |
| 1974 | 5.5 | (26.4) | 31.9 |
| 1975 | 21.9 | 37.2 | (15.3) |
| 1976 | 59.3 | 23.6 | 35.7 |
| 1977 | 31.9 | (7.4) | 39.3 |
| 1978 | 24.0 | 6.4 | 17.6 |
| 1979 | 35.7 | 18.2 | 17.5 |
| 1980 | 19.3 | 32.3 | (13.0) |
| 1981 | 31.4 | (5.0) | 36.4 |
| 1982 | 40.0 | 21.4 | 18.6 |
| 1983 | 32.3 | 22.4 | 9.9 |
| 1984 | 13.6 | 6.1 | 7.5 |
| 1985 | 48.2 | 31.6 | 16.6 |
| 1986 | 26.1 | 18.6 | 7.5 |
| 1987 | 19.5 | 5.1 | 14.4 |
| 1988 | 20.1 | 16.6 | 3.5 |
| 1989 | 44.4 | 31.7 | 12.7 |
| 1990 | 7.4 | (3.1) | 10.5 |
| 1991 | 39.6 | 30.5 | 9.1 |
| 1992 | 20.3 | 7.6 | 12.7 |
| 1993 | 14.3 | 10.1 | 4.2 |
| 1994 | 13.9 | 1.3 | 12.6 |
| 1995 | 43.1 | 37.6 | 5.5 |
| 1996 | 31.8 | 23.0 | 8.8 |
| 1997 | 34.1 | 33.4 | .7 |
| 1998 | 48.3 | 28.6 | 19.7 |
| 1999 | .5 | 21.0 | (20.5) |
| 2000 | 6.5 | (9.1) | 15.6 |
| 2001 | (6.2) | (11.9) | 5.7 |
| 2002 | 10.0 | (22.1) | 32.1 |
| 2003 | 21.0 | 28.7 | (7.7) |
| 2004 | 10.5 | 10.9 | (.4) |
| 2005 | 6.4 | 4.9 | 1.5 |
| 2006 | 18.4 | 15.8 | 2.6 |
| 2007 | 11.0 | 5.5 | 5.5 |
| 2008 | 9.6) | (37.0) | 27.4 |
| 2009 | 19.8 | 26.5 | (6.7) |
| Compounded Annual Gain 1965-2009 | 20.3% | 9.3% | 11.0 |
| Overall Gain 1964-2009 | 434,057% | 5,430% | |

Notes: Data are for calendar years with these exceptions: 1965 and 1966, year ended 9/30; 1967, 15 months ended 12/31.
Starting in 1979, accounting rules required insurance companies to value the equity securities they hold at market rather than at the lower of cost or market, which was previously the requirement. In this table, Berkshire's results through 1978 have been restated to conform to the changed rules. In all other respects, the results are calculated using the numbers originally reported.
The S&P 500 numbers are pre-tax whereas the Berkshire numbers are after-tax. If a corporation such as Berkshire were simply to have owned the S&P 500 and accrued the appropriate taxes, its results would have lagged the S&P 500 in years when that index showed a positive return, but would have exceeded the S&P 500 in years when the index showed a negative return. Over the years, the tax costs would have caused the aggregate lag to be substantial.

# How We Measure Ourselves

Our metrics for evaluating our managerial performance are displayed on the previous page. From the start, Charlie and I have believed in having a rational and unbending standard for measuring what we have – or have not – accomplished. That keeps us from the temptation of seeing where the arrow of performance lands and *then* painting the bull's eye around it.

Selecting the S&P 500 as our bogey was an easy choice because our shareholders, at virtually no cost, can match its performance by holding an index fund. Why should they pay us for merely duplicating that result?

A more difficult decision for us was how to measure the progress of Berkshire versus the S&P. There are good arguments for simply using the change in our stock price. Over an extended period of time, in fact, that is the best test. But year-to-year market prices can be extraordinarily erratic. Even evaluations covering as long as a decade can be greatly distorted by foolishly high or low prices at the beginning or end of the measurement period. Steve Ballmer, of Microsoft, and Jeff Immelt, of GE, can tell you about that problem, suffering as they do from the nosebleed prices at which their stocks traded when they were handed the managerial baton.

The ideal standard for measuring our yearly progress would be the change in Berkshire's per-share intrinsic value. Alas, that value cannot be calculated with anything close to precision, so we instead use a crude proxy for it: per-share book value. Relying on this yardstick has its shortcomings, which we discuss on pages 92 and 93. Additionally, book value at most companies understates intrinsic value, and that is certainly the case at Berkshire. In aggregate, our businesses are worth considerably more than the values at which they are carried on our books. In our all-important insurance business, moreover, the difference is huge. Even so, Charlie and I believe that our book value – understated though it is – supplies the most useful tracking device for changes in intrinsic value. By this measurement, as the opening paragraph of this letter states, our book value since the start of fiscal 1965 has grown at a rate of 20.3% compounded annually.

We should note that had we instead chosen *market prices* as our yardstick, Berkshire's results would look better, showing a gain since the start of fiscal 1965 of 22% compounded annually. Surprisingly, this modest difference in annual compounding rate leads to an 801,516% market-value gain for the entire 45-year period compared to the book-value gain of 434,057% (shown on page 2). Our market gain is better because in 1965 Berkshire shares sold at an appropriate discount to the book value of its underearning textile assets, whereas today Berkshire shares regularly sell at a premium to the accounting values of its first-class businesses.

Summed up, the table on page 2 conveys three messages, two positive and one hugely negative. First,we have never had *any* five-year period beginning with 1965-69 and ending with 2005-09 – and there have been 41 of these – during which our gain in book value did not exceed the S&P's gain. Second, though we have lagged the S&P in some years that were positive for the market, we have consistently done better than the S&P in the eleven years during which it delivered negative results. In other words, our defense has been better than our offense, and that's likely to continue.

The big minus is that our performance advantage has shrunk dramatically as our size has grown, an unpleasant trend that is *certain* to continue. To be sure, Berkshire has many outstanding businesses and a cadre of truly great managers, operating within an unusual corporate culture that lets them maximize their talents. Charlie and I believe these factors will continue to produce better-than-average results over time. But huge sums forge their own anchor and our future advantage, if any, will be a small fraction of our historical edge.

*All per-share figures used in this report apply to Berkshire's A shares. Figures for the B shares are 1/1500th of those shown for A.*

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# What We Don't Do

Long ago, Charlie laid out his strongest ambition: "All I want to know is where I'm going to die, so I'll never go there." That bit of wisdom was inspired by Jacobi, the great Prussian mathematician, who counseled "Invert, always invert" as an aid to solving difficult problems. (I can report as well that this inversion approachworks on a less lofty level: Sing a country song in reverse, and you will quickly recover your car, house and wife.) Here are a few examples of how we apply Charlie's thinking at Berkshire:

- Charlie and I avoid businesses whose futures we can't evaluate, no matter how exciting their products may be. In the past, it required no brilliance for people to foresee the fabulous growth that awaited such industries as autos (in 1910), aircraft (in 1930) and television sets (in 1950). But the future then also included competitive dynamics that would decimate almost all of the companies entering those industries. Even the survivors tended to come away bleeding.

Just because Charlie and I can clearly see dramatic growth ahead for an industry does not mean we can judge what its profit margins and returns on capital will be as a host of competitors battle for supremacy. At Berkshire we will stick with businesses whose profit picture for decades to come seems reasonably predictable. Even then, we will make plenty of mistakes.

- We will never become dependent on the kindness of strangers. Too-big-to-fail is not a fallback position at Berkshire. Instead, we will always arrange our affairs so that any requirements for cash we may conceivably have will be dwarfed by our own liquidity. Moreover, that liquidity will be constantly refreshed by a gusher of earnings from our many and diverse businesses.

When the financial system went into cardiac arrest in September 2008, Berkshire was a *supplier* of liquidity and capital to the system, not a supplicant. At the very peak of the crisis, we poured $15.5 billion into a business world that could otherwise look only to the federal government for help. Of that, $9 billion went to bolster capital at three highly-regarded and previously-secure American businesses that needed – *without delay* – our tangible vote of confidence. The remaining $6.5 billion satisfied our commitment to help fund the purchase of Wrigley, a deal that was completed without pause while, elsewhere, panic reigned.We pay a steep price to maintain our premier financial strength. The $20 billion-plus of cashequivalent assets that we customarily hold is earning a pittance at present. But we sleep well.

- We tend to let our many subsidiaries operate on their own, without our supervising and monitoring them to any degree. That means we are sometimes late in spotting management problems and that both operating and capital decisions are occasionally made with which Charlie and I would have disagreed had we been consulted. Most of our managers, however, use the independence we grant them magnificently, rewarding our confidence by maintaining an owneroriented attitude that is invaluable and too seldom found in huge organizations. We would rather suffer the visible costs of a few bad decisions than incur the many invisible costs that come from decisions made too slowly – or not at all – because of a stifling bureaucracy.

With our acquisition of BNSF, we now have about 257,000 employees and literally hundreds of different operating units. We hope to have many more of each. But we will never allow Berkshire to become some monolith that is overrun with committees, budget presentations and multiple layers of management. Instead, we plan to operate as a collection of separately-managed mediumsized and large businesses, most of whose decision-making occurs at the operating level. Charlie and I will limit ourselves to allocating capital, controlling enterprise risk, choosing managers and setting their compensation.

> "We make no attempt to woo Wall Street

- We make no attempt to woo Wall Street. Investors who buy and sell based upon media or analyst commentary are not for us. Instead we want *partners* who join us at Berkshire because they wish to make a long-term investment in a *business* they themselves understand and because it's one that follows policies with which they concur. If Charlie and I were to go into a small venture with a few partners, we would seek individuals in sync with us, knowing that common goals and a shared destiny make for a happy business "marriage" between owners and managers. Scaling up to giant size doesn't change that truth.

To build a compatible shareholder population, we try to communicate with our owners directly and informatively. Our goal is to tell you what we would like to know if our positions were reversed. Additionally, we try to post our quarterly and annual financial information on the Internet early on weekends, thereby giving you and other investors plenty of time during a non-trading period to digest just what has happened at our multi-faceted enterprise. (Occasionally, SEC deadlines force a non-Friday disclosure.) These matters simply can't be adequately summarized in a few paragraphs, nor do they lend themselves to the kind of catchy headline that journalists sometimes seek. Last year we saw, in one instance, how sound-bite reporting can go wrong. Among the 12,830 words in the annual letter was this sentence: "We are certain, for example, that the economy will be in shambles throughout 2009 – and probably well beyond – but that conclusion does not tell us whether the market will rise or fall." Many news organizations reported – indeed, blared – the first part of the sentence while making no mention whatsoever of its ending.
I regard this as terrible journalism: Misinformed readers or viewers may well have thought that Charlie and I were forecasting bad things for the stock market, though we had not only in that sentence, but also elsewhere, made it clear we weren't predicting the market at all. Any investors who were misled by the sensationalists paid a big price: The Dow closed the day of the letter at 7,063 and finished the year at 10,428. Given a few experiences we've had like that, you can understand why I prefer that our communications with you remain as direct and unabridged as possible.

# Operating Sectors

Let's move to the specifics of Berkshire's operations. We have four major operating sectors, each differing from the others in balance sheet and income account characteristics. Therefore, lumping them together,as is standard in financial statements, impedes analysis. So we'll present them as four separate businesses, which is how Charlie and I view them.

## Insurance

Our property-casualty (P/C) insurance business has been the engine behind Berkshire's growth and will continue to be. It has worked wonders for us. We carry our P/C companies on our books at $15.5 billion more than their net tangible assets, an amount lodged in our "Goodwill" account. These companies, however, are worth far more than their carrying value – and the following look at the economic model of the P/C industry will tell you why.

Insurers receive premiums upfront and pay claims later. In extreme cases, such as those arising from certain workers' compensation accidents, payments can stretch over decades. This collect-now, pay-later model leaves us holding large sums – money we call "float" – that will eventually go to others. Meanwhile, we get to invest this float for Berkshire's benefit. Though individual policies and claims come and go, the amount of float we hold remains remarkably stable in relation to premium volume. Consequently, as our business grows, so does our float.

If premiums exceed the total of expenses and eventual losses, we register an underwriting profit that adds to the investment income produced from the float. This combination allows us to enjoy the use of free money – and, better yet, get *paid* for holding it. Alas, the hope of this happy result attracts intense competition, so vigorous in most years as to cause the P/C industry as a whole to operate at a significant underwriting *loss*. This loss, in effect, is what the industry pays to hold its float. Usually this cost is fairly low, but in some catastrophe-ridden years the cost from underwriting losses more than eats up the income derived from use of float.

In my perhaps biased view, Berkshire has the best large insurance operation in the world. And I will absolutely state that we have the best managers. Our float has grown from $16 million in 1967, when we entered the business, to $62 billion at the end of 2009. Moreover, we have now operated at an underwriting profit for seven consecutive years. I believe it likely that we will continue to underwrite profitably in most – though certainly not all – future years. If we do so, our float will be cost-free, much as if someone deposited $62 billion with us that we could invest for our own benefit without the payment of interest.

Let me emphasize again that cost-free float is *not* a result to be expected for the P/C industry as a whole: In most years, premiums have been inadequate to cover claims plus expenses. Consequently, the industry's overall return on tangible equity has for many decades fallen far short of that achieved by the S&P 500. Outstanding economics exist at Berkshire only because we have some outstanding managers running some unusual businesses. Our insurance CEOs deserve your thanks, having added many billions of dollars to Berkshire's value. It's a pleasure for me to tell you about these all-stars.

### PROPERTY-CASUALTY AND LIFE INSURANCE BUSINESSES

| | | *UNDERWRITING PROFIT* | | *YEAREND FLOAT* | |
|---|---|---|---|---|---|
| INSURANCE OPERATIONS | (in millions) | *2009* | *2008* | *2009* | *2008* |
| General Re | | $477 | $342 | $21,014 | $21,074 |
| BH Reinsurance | | 349 | 1,324 | 26,223 | 24,221 |
| GEICO | | 649 | 916 | 9,613 | 8,454 |
| Other Primary | | 84 | 210 | 5,061 | 4,739 |
| | | $1,559 | $2,792 | $61,911 | $58,488 |

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## GEICO

Let's start at GEICO, which is known to all of you because of its $800 million annual advertising budget (close to twice that of the runner-up advertiser in the auto insurance field). GEICO is managed by Tony Nicely, who joined the company at 18. Now 66, Tony still tap-dances to the office every day, just as I do at 79. We both feel lucky to work at a business we love. GEICO's customers have warm feelings toward the company as well. Here's proof: Since Berkshire acquired control of GEICO in 1996, its market share has increased from 2.5% to 8.1%, a gain reflecting the net addition of seven million policyholders. Perhaps they contacted us because they thought our gecko was cute, but they bought from us to save important money. (Maybe you can as well; call 1-800-847-7536 or go to www.GEICO.com.) And they've stayed with us because they like our service as well as our price.

Berkshire acquired GEICO in two stages. In 1976-80 we bought about one-third of the company's stock for $47 million. Over the years, large repurchases by the company of its own shares caused our position to grow to about 50% without our having bought any more shares. Then, on January 2, 1996, we acquired the remaining 50% of GEICO for $2.3 *billion* in cash, about 50 times the cost of our original purchase.

An old Wall Street joke gets close to our experience:

*Customer*: Thanks for putting me in XYZ stock at 5. I hear it's up to 18.

*Broker*: Yes, and that's just the beginning. In fact, the company is doing so well now, that it's an even better buy at 18 than it was when you made your purchase.

*Customer*: Damn, I knew I should have waited.

GEICO's growth may slow in 2010. U.S. vehicle registrations are actually down because of slumping auto sales. Moreover, high unemployment is causing a growing number of drivers to go uninsured. (That's illegal almost everywhere, but if you've lost your job and still want to drive . . .) Our "low-cost producer" status, however, is sure to give us significant gains in the future. In 1995, GEICO was the country's sixth largest auto insurer; now we are number three. The company's float has grown from $2.7 billion to $9.6 billion. Equally important, GEICO has operated at an underwriting profit in 13 of the 14 years Berkshire has owned it. I became excited about GEICO in January 1951, when I first visited the company as a 20-year-old student. Thanks to Tony, I'm even more excited today.

## Ajit

A hugely important event in Berkshire's history occurred on a Saturday in 1985. Ajit Jain came into our office in Omaha – and I immediately knew we had found a superstar. (He had been discovered by Mike Goldberg, now elevated to St. Mike.) We immediately put Ajit in charge of National Indemnity's small and struggling reinsurance operation.Over the years, he has built this business into a one-of-a-kind giant in the insurance world.

Staffed today by only 30 people, Ajit's operation has set records for transaction size in several areas of insurance. Ajit writes billion-dollar limits – and then keeps every dime of the risk instead of laying it off with other insurers. Three years ago, he took over huge liabilities from Lloyds, allowing it to clean up its relationship with 27,972 participants ("names") who had written problem-ridden policies that at one point threatened the survival of this 322-year-old institution. The premium for that single contract was $7.1 billion. During 2009, he negotiated a life reinsurance contract that could produce $50 billion of premium for us over the next 50 or so years.

Ajit's business is just the opposite of GEICO's. At that company, we have millions of small policies that largely renew year after year. Ajit writes relatively few policies, and the mix changes significantly from year to year. Throughout the world, he is known as the man to call when something both very large and unusual needs to be insured.

If Charlie, I and Ajit are ever in a sinking boat – and you can only save one of us – swim to Ajit.

## General Re

Our third insurance powerhouse is General Re. Some years back this operation was troubled; now it is a gleaming jewel in our insurance crown. Under the leadership of Tad Montross, General Re had an outstanding underwriting year in 2009, while also delivering us unusually large amounts of float per dollar of premium volume. Alongside General Re's P/C business, Tad and his associates have developed a major life reinsurance operation that has grown increasingly valuable.Last year General Re finally attained 100% ownership of Cologne Re, which since 1995 has been a key – though only partially-owned – part of our presence around the world. Tad and I will be visiting Cologne in September to thank its managers for their important contribution to Berkshire.

Finally, we own a group of smaller companies, most of them specializing in odd corners of the insurance world. In aggregate, their results have consistently been profitable and, as the table below shows, the float they provide us is substantial. Charlie and I treasure these companies and their managers.

And now a painful confession: Last year your chairman closed the book on a very expensive business fiasco entirely of his own making. For many years I had struggled to think of side products that we could offer our millions of loyal GEICO customers. Unfortunately, I finally succeeded, coming up with a brilliant insight that we should market our own credit card. I reasoned that GEICO policyholders were likely to be good credit risks and, assuming we offered an attractive card, would likely favor us with their business. We got business all right – but of the wrong type. Our pre-tax losses from credit-card operations came to about $6.3 million before I finally woke up. We then sold our $98 million portfolio of troubled receivables for 55¢ on the dollar, losing an additional $44 million. GEICO's managers, it should be emphasized, were never enthusiastic about my idea. They warned me that instead of getting the cream of GEICO's customers we would get the...well, let's call it the non-cream. I subtly indicated that I was older and wiser. I was just older.

# Regulated Utility Business

Berkshire has an 89.5% interest in MidAmerican Energy Holdings, which owns a wide variety of utility operations. The largest of these are (1) Yorkshire Electricity and Northern Electric, whose 3.8 million end users make it the U.K.'s third largest distributor of electricity; (2) MidAmerican Energy, which serves 725,000 electric customers, primarily in Iowa; (3) Pacific Power and Rocky Mountain Power, serving about 1.7 million electric customers in six western states; and (4) Kern River and Northern Natural pipelines, which carry about 8% of the natural gas consumed in the U.S.

MidAmerican has two terrific managers, Dave Sokol and Greg Abel. In addition, my long-time friend, Walter Scott, along with his family, has a major ownership position in the company. Walter brings extraordinary business savvy to *any* operation. Ten years of working with Dave, Greg and Walter have reinforced my original belief: Berkshire couldn't have better partners. They are truly a dream team.

Somewhat incongruously, MidAmerican also owns the second largest real estate brokerage firm in the U.S., HomeServices of America. This company operates through 21 locally-branded firms that have 16,000 agents. Though last year was again a terrible year for home sales, HomeServices earned a modest sum. It also acquired a firm in Chicago and will add other quality brokerage operations when they are available at sensible prices. A decade from now, HomeServices is likely to be much larger.

Our regulated electric utilities, offering monopoly service in most cases, operate in a symbiotic manner with the customers in their service areas, with those users depending on us to provide first-class service and invest for their future needs. Permitting and construction periods for generation and major transmission facilities stretch way out, so it is incumbent on us to be far-sighted. We, in turn, look to our utilities' regulators (acting on behalf of our customers) to allow us an appropriate return on the huge amounts of capital we must deploy to meet future needs. We shouldn't expect our regulators to live up to their end of the bargain unless we live up to ours.

Dave and Greg make sure we do just that. National research companies consistently rank our Iowa and Western utilities at or near the top of their industry. Similarly, among the 43 U.S. pipelines ranked by a firm named Mastio, our Kern River and Northern Natural properties tied for second place.

Moreover, we continue to pour huge sums of money into our operations so as to not only prepare for the future but also make these operations more environmentally friendly. Since we purchased MidAmerican ten years ago, it has *never* paid a dividend. We have instead used earnings to improve and expand our properties in each of the territories we serve. As one dramatic example, in the last three years our Iowa and Western utilities have earned $2.5 billion, while in this same period spending $3 billion on wind generation facilities.

MidAmerican has consistently kept its end of the bargain with society and, to society's credit, it has reciprocated: With few exceptions, our regulators have promptly allowed us to earn a fair return on the everincreasing sums of capital we must invest. Going forward, we will do whatever it takes to serve our territories in the manner they expect. We believe that, in turn, we will be allowed the return we deserve on the funds we invest.

In earlier days, Charlie and I shunned capital-intensive businesses such as public utilities. Indeed, the best businesses by far for owners continue to be those that have high returns on capital and that require little incremental investment to grow. We are fortunate to own a number of such businesses, and we would love to buy more. Anticipating, however, that Berkshire will generate ever-increasing amounts of cash, we are today quite willing to enter businesses that regularly require large capital expenditures. We expect only that these businesses have reasonable expectations of earning decent returns on the incremental sums they invest. If our expectations are met – and we believe that they will be – Berkshire's ever-growing collection of good to great businesses should produce above-average, though certainly not spectacular, returns in the decades ahead.

Our BNSF operation, it should be noted, has certain important economic characteristics that resemble those of our electric utilities. In both cases we provide fundamental services that are, and will remain, essential to the economic well-being of our customers, the communities we serve, and indeed the nation. Both will require heavy investment that greatly exceeds depreciation allowances for decades to come. Both must also plan far ahead to satisfy demand that is expected to outstrip the needs of the past. Finally, both require wise regulators who will provide certainty about allowable returns so that we can confidently make the huge investments required to maintain, replace and expand the plant.

We see a "social compact" existing between the public and our railroad business, just as is the case with our utilities. If either side shirks its obligations, both sides will inevitably suffer. Therefore, both parties to the compact should – and we believe will – understand the benefit of behaving in a way that encourages good behavior by the other. It is inconceivable that our country will realize anything close to its full economic potential without its possessing first-class electricity and railroad systems. We will do our part to see that they exist.

In the future, BNSF results will be included in this "regulated utility" section. Aside from the two businesses having similar underlying economic characteristics, both are logical users of substantial amounts of debt that is not guaranteed by Berkshire. Both will retain most of their earnings. Both will earn and invest large sums in good times or bad, though the railroad will display the greater cyclicality. Overall, we expect this regulated sector to deliver significantly increased earnings over time, albeit at the cost of our investing many tens – yes, tens – of billions of dollars of incremental equity capital.

## MIDAMERICAN'S OPERATIONS

| | *EARNINGS (in millions)* | |
|---|---|---|
| | 2009 | 2008 |
| U.K. utilities | $248 | $339 |
| Iowa utility | 285 | 425 |
| Western utilities | 788 | 703 |
| Pipelines | 457 | 595 |
| HomeServices | 43 | (45) |
| Other (net) | 25 | 186 |
| Operating earnings before corporate interest and taxes | 1,846 | 2,203 |
| Constellation Energy * | | 1,092 |
| Interest, other than to Berkshire | (318) | (332) |
| Interest on Berkshire junior debt | (58) | (111) |
| Income tax | (313) | (1,002) |
| Net earnings | $1,157 | $1,850 |
| Earnings applicable to Berkshire ** | $ 1,071 | $1,704 |
| Debt owed to others | 19,579 | 19,145 |
| Debt owed to Berkshire | 353 | 1,087 |

*Consists of a breakup fee of $175 million and a profit on our investment of $917 million.

**Includes interest earned by Berkshire (net of related income taxes) of $38 in 2009 and $72 in 2008.

# Manufacturing, Service and Retailing Operations

Our activities in this part of Berkshire cover the waterfront. Let's look, though, at a summary balance sheet and earnings statement for the entire group.

Almost all of the many and widely-diverse operations in this sector suffered to one degree or another from 2009's severe recession. The major exception was McLane, our distributor of groceries, confections and non-food items to thousands of retail outlets, the largest by far Wal-Mart.

Grady Rosier led McLane to record pre-tax earnings of $344 million, which even so amounted to only slightly more than one cent per dollar on its huge sales of $31.2 billion. McLane employs a vast array of physical assets – practically all of which it owns – including 3,242 trailers, 2,309 tractors and 55 distribution centers with 15.2 million square feet of space. McLane's prime asset, however, is Grady.

Among the businesses we own that have major exposure to the depressed industrial sector, both Marmon and Iscar turned in relatively strong performances. Frank Ptak's Marmon delivered a 13.5% pre-tax profit margin, a record high. Though the company's sales were down 27%, Frank's cost-conscious management mitigated the decline in earnings.

Nothing stops Israel-based Iscar – not wars, recessions or competitors. The world's two other leading suppliers of small cutting tools both had very difficult years, each operating at a loss throughout much of the year. Though Iscar's results were down significantly from 2008, the company regularly reported profits, even while it was integrating and rationalizing Tungaloy, the large Japanese acquisition that we told you about last year. When manufacturing rebounds, Iscar will set new records. Its incredible managerial team of Eitan Wertheimer, Jacob Harpaz and Danny Goldman will see to that.

Every business we own that is connected to residential and commercial construction suffered severely in 2009. Combined pre-tax earnings of Shaw, Johns Manville, Acme Brick, and MiTek were $227 million, an 82.5% decline from $1.295 billion in 2006, when construction activity was booming. These businesses continue to bump along the bottom, though their competitive positions remain undented.

The major problem for Berkshire last year was NetJets, an aviation operation that offers fractional ownership of jets.

## BALANCE SHEET
12/31/09

| *Assets* | *(in millions)* |
|---|---|
| Cash and equivalents | $3,018 |
| Accounts and notes receivable | 5,066 |
| Inventory | 6,147 |
| Other current assets | 625 |
| Total current assets | 14,856 |
| Goodwill and other intangibles | 16,499 |
| Fixed assets | 15,374 |
| Other assets | 2,070 |
| | $48,799 |

| *Liabilities and Equity* | *(in millions)* |
|---|---|
| Notes payable | $ 1,842 |
| Other current liabilities | 7,414 |
| Total current liabilities | 9,256 |
| Deferred taxes | 2,834 |
| Term debt and other liabilities | 6,240 |
| Equity | 30,469 |
| | $48,799 |

## EARNINGS STATEMENT (in millions)

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Revenues | $61,665 | $66,099 | $59,100 |
| Operating expenses (including depreciation of $1,422 in 2009, $1,280 in 2008 and $955 in 2007) | 59,509 | 61,937 | 55,026 |
| Interest expense | 98 | 139 | 127 |
| Pre-tax earnings | 2,058* | 4,023* | 3,947* |
| Income taxes and minority interests | 945 | 1,740 | 1,594 |
| Net income | $ 1,113 | $ 2,283 | $ 2,353 |

*Does not include purchase-accounting adjustments.

We had a number of companies at which profits improved even as sales contracted, always an exceptional managerial achievement. Here are the CEOs who made it happen:

| COMPANY | CEO |
|---|---|
| Benjamin Moore (paint) | Denis Abrams |
| Borsheims (jewelry retailing) | Susan Jacques |
| H. H. Brown (manufacturing and retailingof shoes) | Jim Issler |
| CTB (agricultural equipment) | Vic Mancinelli |
| Dairy Queen | John Gainor |
| Nebraska Furniture Mart (furniture retailing) | Ron and Irv Blumkin |
| Pampered Chef (direct sales of kitchen tools) | Marla Gottschalk |
| See's (manufacturing and retailing of candy) | Brad Kinstler |
| Star Furniture (furniture retailing) | Bill Kimbrell. |

Over the years, it has been enormously successful in establishing itself as the premier company in its industry, with the value of its fleet far exceeding that of its three major competitors *combined.* Overall, our dominance in the field remains unchallenged.

NetJets' business operation, however, has been another story. In the eleven years that we have owned the company, it has recorded an aggregate pre-tax loss of $157 million. Moreover, the company's debt has soared from $102 million at the time of purchase to $1.9 billion in April of last year. Without Berkshire's guarantee of this debt, NetJets would have been out of business. It's clear that I failed you in letting NetJets descend into this condition. But, luckily, I have been bailed out.

Dave Sokol, the enormously talented builder and operator of MidAmerican Energy, became CEO of NetJets in August. His leadership has been transforming: Debt has already been reduced to $1.4 billion, and, after suffering a staggering loss of $711 million in 2009, the company is now solidly profitable.

Most important, none of the changes wrought by Dave have in any way undercut the top-of-the-line standards for safety and service that Rich Santulli, NetJets' previous CEO and the father of the fractionalownership industry, insisted upon. Dave and I have the strongest possible personal interest in maintaining these standards because we and our families use NetJets for almost all of our flying, as do many of our directors and managers. None of us are assigned special planes nor crews. We receive exactly the same treatment as any other owner, meaning we pay the same prices as everyone else does when we are using our personal contracts. In short, we eat our own cooking. In the aviation business, no other testimonial means more.

# Finance and Financial Products

Our largest operation in this sector is Clayton Homes, the country's leading producer of modular and manufactured homes. Clayton was not always number one: A decade ago the three leading manufacturers were Fleetwood, Champion and Oakwood, which together accounted for 44% of the output of the industry. All have since gone bankrupt. Total industry output, meanwhile, has fallen from 382,000 units in 1999 to 60,000 units in 2009.

The industry is in shambles for two reasons, the first of which must be lived with if the U.S. economy is to recover. This reason concerns U.S. housing starts (including apartment units). In 2009, starts were 554,000, by far the lowest number in the 50 years for which we have data. Paradoxically, this is *good* news.

People *thought* it was good news a few years back when housing starts – the supply side of the picture– were running about two million annually. But household formations – the demand side – only amounted to about 1.2 million. After a few years of such imbalances, the country unsurprisingly ended up with far too many houses.

There were three ways to cure this overhang: (1) blow up a lot of houses, a tactic similar to the destruction of autos that occurred with the "cash-for-clunkers" program; (2) speed up household formations by, say, encouraging teenagers to cohabitate, a program not likely to suffer from a lack of volunteers or; (3) reduce new housing starts to a number far below the rate of household formations.

Our country has wisely selected the third option, which means that within a year or so residential housing problems should largely be behind us, the exceptions being only high-value houses and those in certain localities where overbuilding was particularly egregious. Prices will remain far below "bubble" levels, of course, but for every seller (or lender) hurt by this there will be a buyer who benefits. Indeed, many families that couldn't afford to buy an appropriate home a few years ago now find it well within their means because the bubble burst.

The second reason that manufactured housing is troubled is specific to the industry: the punitive differential in mortgage rates between factory-built homes and site-built homes. Before you read further, let me underscore the obvious: Berkshire has a dog in this fight, and you should therefore assess the commentary that follows with special care. That warning made, however, let me explain why the rate differential causes problems for both large numbers of lower-income Americans and Clayton.

The residential mortgage market is shaped by government rules that are expressed by FHA, Freddie Mac and Fannie Mae. Their lending standards are all-powerful because the mortgages they insure can typically be securitized and turned into what, in effect, is an obligation of the U.S. government. Currently buyers of conventional site-built homes who qualify for these guarantees can obtain a 30-year loan at about 51.4%. In addition, these are mortgages that have recently been purchased in massive amounts by the Federal Reserve, an action that also helped to keep rates at bargain-basement levels.

In contrast, very few factory-built homes qualify for agency-insured mortgages. Therefore, a meritorious buyer of a factory-built home must pay about 9% on his loan. For the all-cash buyer, Clayton's homes offer terrific value. If the buyer needs mortgage financing, however – and, of course, most buyers do – the difference in financing costs too often negates the attractive price of a factory-built home.

Last year I told you why our buyers – generally people with low incomes – performed so well as credit risks. Their attitude was all-important: They signed up to live in the home, not resell or refinance it.

Consequently, our buyers usually took out loans with payments geared to their verified incomes (we weren't making "liar's loans") and looked forward to the day they could burn their mortgage. If they lost their jobs, had health problems or got divorced, we could of course expect defaults. But they seldom walked away simply because house values had fallen. Even today, though job-loss troubles have grown, Clayton's delinquencies and defaults remain reasonable and will not cause us significant problems.

We have tried to qualify more of our customers' loans for treatment similar to those available on the site-built product. So far we have had only token success. Many families with modest incomes but responsible habits have therefore had to forego home ownership simply because the financing differential attached to the factory-built product makes monthly payments too expensive. If qualifications aren't broadened, so as to open low-cost financing to *all* who meet down-payment and income standards, the manufactured-home industry seems destined to struggle and dwindle.

Even under these conditions, I believe Clayton will operate profitably in coming years, though well below its potential. We couldn't have a better manager than CEO Kevin Clayton, who treats Berkshire's interests as if they were his own. Our product is first-class, inexpensive and constantly being improved. Moreover, we will continue to use Berkshire's credit to support Clayton's mortgage program, convinced as we are of its soundness.Even so, Berkshire can't borrow at a rate approaching that available to government agencies. This handicap will limit sales, hurting both Clayton and a multitude of worthy families who long for a low-cost home.

At the end of 2009, we became a 50% owner of Berkadia Commercial Mortgage (formerly known as Capmark), the country's third-largest servicer of commercial mortgages. In addition to servicing a $235 billion portfolio, the company is an important originator of mortgages, having 25 offices spread around the country. Though commercial real estate will face major problems in the next few years, long-term opportunities for Berkadia are significant.

Our partner in this operation is Leucadia, run by Joe Steinberg and Ian Cumming, with whom we had a terrific experience some years back when Berkshire joined with them to purchase Finova, a troubled finance business. In resolving that situation, Joe and Ian did far more than their share of the work, an arrangement I always encourage. Naturally, I was delighted when they called me to partner again in the Capmark purchase. Our first venture was also christened Berkadia. So let's call this one Son of Berkadia. Someday I'll be writing you about Grandson of Berkadia.

*PRE-TAX EARNINGS (in millions)*

| | 2009 | 2008 |
|---|---|---|
| Net investment income | $278 | $330 |
| Life and annuity operation | 116 | 23 |
| Leasing operations | 14 | 87 |
| Manufactured-housing finance (Clayton) | 187 | 206 |
| Other income * | 186 | 141 |
| Income before investment and derivatives gains or losses | $781 | $787 |

*Includes $116 million in 2009 and $92 million in 2008 of fees that Berkshire charges Clayton for the use of Berkshire's credit.

In the above table, Clayton's earnings are net of the company's payment to Berkshire for the use ofits credit. Offsetting this cost to Clayton is an identical amount of income credited to Berkshire's finance operation and included in "Other Income." The cost and income amount was $116 million in 2009 and $92 million in 2008. The table also illustrates how severely our furniture (CORT) and trailer (XTRA) leasing operations have been hit by the recession. Though their competitive positions remain as strong as ever, we have yet to see any bounce in these businesses.

# Investments

To the right we show our common stock investments that at yearend had a market value of more than $1 billion.

In addition, we own positions in non-traded securities of Dow Chemical, General Electric, Goldman Sachs, Swiss Re and Wrigley with an aggregate cost of $21.1 billion and a carrying value of $26.0 billion. We purchased these five positions in the last 18 months. Setting aside the significant equity potential they provide us, these holdings deliver us an aggregate of $2.1 billion annually in dividends and interest. Finally, we owned 76,777,029 shares (22.5%) of BNSF at yearend, which we then carried at $85.78 per share, but which have subsequently been melded into our purchase of the entire company.

In 2009, our largest sales were in ConocoPhillips, Moody's, Procter & Gamble and Johnson & Johnson (sales of the latter occurring after we had built our position earlier in the year). Charlie and I believe that all of these stocks will likely trade higher in the future. We made some sales early in 2009 to raise cash for our Dow and Swiss Re purchases and late in the year made other sales in anticipation of our BNSF purchase.

We told you last year that very unusual conditions then existed in the corporate and municipal bond markets and that these securities were ridiculously cheap relative to U.S. Treasuries. We backed this view with some purchases, but I should have done far more. Big opportunities come infrequently. When it's raining gold, reach for a bucket, not a thimble.

We entered 2008 with $44.3 billion of cash-equivalents, and we have since retained operating earnings of $17 billion. Nevertheless, at yearend 2009, our cash was down to $30.6 billion (with $8 billion earmarked for the BNSF acquisition). We've put a lot of money to work during the chaos of the last two years. It's been an ideal period for investors: A climate of fear is their best friend. Those who invest only when commentators are upbeat end up paying a heavy price for meaningless reassurance. In the end, what counts in investing is what you pay for a business – through the purchase of a small piece of it in the stock market – and what that business earns in the succeeding decade or two.

## STOCK INVESTMENTS

12/31/09

| Shares | Company | Percentage of Company Owned | Cost * (in millions) | Market (in millions) |
|---|---|---|---|---|
| 151,610,700 | American Express Company | 12.7 | $ 1,287 | $ 6,143 |
| 225,000,000 | BYD Company, Ltd | 9.9 | 232 | 1,986 |
| 200,000,000 | The Coca-Cola Company | 8.6 | 1,299 | 11,400 |
| 37,711,330 | ConocoPhillips | 2.5 | 2,741 | 1,926 |
| 28,530,467 | Johnson & Johnson | 1.0 | 1,724 | 1,838 |
| 130,272,500 | Kraft Foods Inc | 8.8 | 4,330 | 3,541 |
| 3,947,554 | POSCO | 5.2 | 768 | 2,092 |
| 83,128,411 | The Procter & Gamble Company | 2.9 | 533 | 5,040 |
| 25,108,967 | Sanofi-Aventis | 1.9 | 2,027 | 1,979 |
| 234,247,373 | Tesco plc | 3.0 | 1,367 | 1,620 |
| 76,633,426 | U.S. Bancorp | 4.0 | 2,371 | 1,725 |
| 39,037,142 | Wal-Mart Stores, Inc | 1.0 | 1,893 | 2,087 |
| 334,235,585 | Wells Fargo & Company | 6.5 | 7,394 | 9,021 |
| | Others | | 6,680 | 8,636 |
| | Total Common Stocks Carried at Market | | $34,646 | $59,034 |

*This is our actual purchase price and also our tax basis; GAAP "cost" differs in a few cases because of write-ups or write-downs that have been required.

Last year I wrote extensively about our derivatives contracts, which were then the subject of both controversy and misunderstanding. For that discussion, please go to *www.berkshirehathaway.com.* We have since changed only a few of our positions. Some credit contracts have run off. The terms of about 10% of our equity put contracts have also changed: Maturities have been shortened and strike prices materially reduced. In these modifications, no money changed hands. A few points from last year's discussion are worth repeating:

(1) Though it's no sure thing, I expect our contracts in aggregate to deliver us a profit over their lifetime, even when investment income on the huge amount of float they provide us is excluded in the calculation. Our derivatives float – which is not included in the $62 billion of insurance float I described earlier – was about $6.3 billion at yearend.

(2) Only a handful of our contracts require us to post collateral under any circumstances. At last year's low point in the stock and credit markets, our posting requirement was $1.7 a small fraction of the derivatives-related float we held. When we do post collateral, let me add, the securities we put up continue to earn money for our account.

(3) Finally, you should expect large swings in the carrying value of these contracts, items that can affect our reported quarterly earnings in a huge way but that do not affect our cash or investment holdings. That thought certainly fit 2009's circumstances.

Here are the pre-tax quarterly gains and losses from derivatives valuations that were part of our reported earnings last year:

| *Quarter* | *$ Gain (Loss) (in Billions)* |
|---|---|
| 1 | (1.517) |
| 2 | 2.357 |
| 3 | 1.732 |
| 4 | 1.052 |

As we've explained, these wild swings neither cheer nor bother Charlie and me. When we report to you, we will continue to separate out these figures (as we do realized investment gains and losses) so that you can more clearly view the earnings of our operating businesses. We are delighted that we hold the derivatives contracts that we do. To date we have significantly profited from the float they provide. We expect also to earn further investment income over the life of our contracts.

We have long invested in derivatives contracts that Charlie and I think are mispriced, just as we try to invest in mispriced stocks and bonds. Indeed, we first reported to you that we held such contracts in early 1998.

The dangers that derivatives pose for both participants and society – dangers of which we've long warned, and that can be dynamite – arise when these contracts lead to leverage and/or counterparty risk that is extreme. At Berkshire nothing like that has occurred – nor will it.

It's my job to keep Berkshire far away from such problems. Charlie and I believe that a CEO must not delegate risk control. It's simply too important. At Berkshire, I both initiate and monitor every derivatives contract on our books, with the exception of operations-related contracts at a few of our subsidiaries, such as MidAmerican, and the minor runoff contracts at General Re. If Berkshire ever gets in trouble, it will be my fault. It will not be because of misjudgments made by a Risk Committee or Chief Risk Officer.

In my view a board of directors of a huge financial institution is *derelict* if it does not insist that its CEO bear full responsibility for risk control. If he's incapable of handling that job, he should look for other employment. And if he fails at it – with the government thereupon required to step in with funds or guarantees – the financial consequences for him and his board should be severe.

It has not been shareholders who have botched the operations of some of our country's largest financial institutions. Yet they have borne the burden, with 90% or more of the value of their holdings wiped out in mostcases of failure. Collectively, they have lost more than $500 billion in just the four largest financial fiascos of the last two years. To say these *owners* have been "bailed-out" is to make a mockery of the term.

The CEOs and directors of the failed companies, however, have largely gone unscathed. Their fortunes may have been diminished by the disasters they oversaw, but they still live in grand style. It is the behavior of these CEOs and directors that needs to be changed: If their institutions and the country are harmed by their recklessness, they should pay a heavy price – one not reimbursable by the companies they've damaged nor by insurance. CEOs and, in many cases, directors have long benefitted from oversized financial carrots; some *meaningful* sticks now need to be part of their employment picture as well.

# An Inconvenient Truth (Boardroom Overheating)

Our subsidiaries made a few small "bolt-on" acquisitions last year for cash, but our blockbuster deal with BNSF required us to issue about 95,000 Berkshire shares that amounted to 6.1% of those previously outstanding. Charlie and I enjoy issuing Berkshire stock about as much as we relish prepping for a colonoscopy.

The reason for our distaste is simple. If we wouldn't dream of selling Berkshire in its entirety at the current market price, why in the world should we "sell" a significant part of the company at that same inadequate price by issuing our stock in a merger?

In evaluating a stock-for-stock offer, shareholders of the target company quite understandably focus on the market price of the acquirer's shares that are to be given them. But they also expect the transaction to deliver them the *intrinsic* value of their own shares – the ones they are giving up. If shares of a prospective acquirer are selling below their intrinsic value, it's impossible for that buyer to make a sensible deal in an all-stock deal. You simply can't exchange an undervalued stock for a fully-valued one without hurting your shareholders.

Imagine, if you will, Company A and Company B, of equal size and both with businesses intrinsically worth $100 per share. Both of their stocks, however, sell for $80 per share. The CEO of A, long on confidence and short on smarts, offers 1¼ shares of A for each share of B, correctly telling his directors that B is worth $100 per share. He will neglect to explain, though, that what he is giving will cost his shareholders $125 in intrinsic value. If the directors are mathematically challenged as well, and a deal is therefore completed, the shareholders of B will end up owning 55.6% of A & B's combined assets and A's shareholders will own 44.4%. Not everyone at A, it should be noted, is a loser from this nonsensical transaction. Its CEO now runs a company twice as large as his original domain, in a world where size tends to correlate with both prestige and compensation.

If an acquirer's stock is overvalued, it's a different story: Using it as a currency works to the acquirer's advantage. That's why bubbles in various areas of the stock market have invariably led to serial issuances of stock by sly promoters. Going by the market value of their stock, they can afford to overpay because they are, in effect, using counterfeit money. Periodically, many air-for-assets acquisitions have taken place, the late 1960s having been a particularly obscene period for such chicanery. Indeed, certain large companies were built in this way. (No one involved, of course, ever publicly acknowledges the reality of what is going on, though there is plenty of private snickering.)

In our BNSF acquisition, the selling shareholders quite properly evaluated our offer at $100 per share. The cost to us, however, was somewhat higher since 40% of the $100 was delivered in our shares, which Charlie and I believed to be worth more than their market value. Fortunately, we had long owned a substantial amount of BNSF stock that we purchased in the market for cash. All told, therefore, only about 30% of our cost overall was paid with Berkshire shares.

In the end, Charlie and I decided that the disadvantage of paying 30% of the price through stock was offset by the opportunity the acquisition gave us to deploy $22 billion of cash in a business we understood and liked for the long term. It has the additional virtue of being run by Matt Rose, whom we trust and admire. We also like the prospect of investing additional billions over the years at reasonable rates of return. But the final decision was a close one. If we had needed to use more stock to make the acquisition, it would in fact have made no sense. We would have then been giving up more than we were getting.

I have been in dozens of board meetings in which acquisitions have been deliberated, often with the directors being instructed by high-priced investment bankers (are there any other kind?). Invariably, the bankers give the board a detailed assessment of the value of the company being purchased, with emphasis on why it is worth far more than its market price. In more than fifty years of board memberships, however, never have I heard the investment bankers (or management!) discuss the true value of what is being given. When a deal involved the issuance of the acquirer's stock, they simply used market value to measure the cost. *They did this even though they would have argued that the acquirer's stock price was woefully inadequate – absolutely no indicator of its real value – had a takeover bid for the acquirer instead been the subject up for discussion.*

When stock is the currency being contemplated in an acquisition and when directors are hearing from an advisor, it appears to me that there is only one way to get a rational and balanced discussion. Directors should hire a second advisor to make the case *against* the proposed acquisition, with its fee contingent on the deal not going through. Absent this drastic remedy, our recommendation in respect to the use of advisors remains: "Don't ask the barber whether you need a haircut."

I can't resist telling you a true story from long ago. We owned stock in a large well-run bank that for decades had been statutorily prevented from acquisitions. Eventually, the law was changed and our bank immediately began looking for possible purchases. Its managers – fine people and able bankers – not unexpectedly began to behave like teenage boys who had just discovered girls.

They soon focused on a much smaller bank, also well-run and having similar financial characteristics in such areas as return on equity, interest margin, loan quality, etc. Our bank sold at a modest price (that's why we had bought into it), hovering near book value and possessing a very low price/earnings ratio. Alongside, though, the small-bank owner was being wooed by other large banks in the state and was holding out for a price close to three times book value. Moreover, he wanted stock, not cash.

Naturally, our fellows caved in and agreed to this value-destroying deal. "We need to show that we are in the hunt. Besides, it's only a small deal," they said, as if only *major* harm to shareholders would have been a legitimate reason for holding back. Charlie's reaction at the time: "Are we supposed to applaud because the dog that fouls our lawn is a Chihuahua rather than a Saint Bernard?" The seller of the smaller bank – no fool – then delivered one final demand in his negotiations. "After the merger," he in effect said, perhaps using words that were phrased more diplomatically than these, "I'm going to be a large shareholder of your bank, and it will represent a huge portion of my net worth. You have to promise me, therefore, that you'll never again do a deal this dumb."

Yes, the merger went through. The owner of the small bank became richer, we became poorer, and the managers of the big bank – newly bigger – lived happily ever after.

> "Are we supposed to applaud because the dog that fouls our lawn is a Chihuahua rather than a Saint Bernard?"

# The Annual Meeting

Our best guess is that 35,000 people attended the annual meeting last year (up from 12 – *no* zeros omitted – in 1981). With our shareholder population much expanded, we expect even more this year. Therefore, we will have to make a few changes in the usual routine. There will be no change, however, in our enthusiasm for having you attend. Charlie and I like to meet you, answer your questions and – best of all – have you *buy* lots of goods from our businesses.

The meeting this year will be held on Saturday, May 1st. As always, the doors will open at the Qwest Center at 7 a.m., and a new Berkshire movie will be shown at 8:30. At 9:30 we will go directly to the question-and-answer period, which (with a break for lunch at the Qwest's stands) will last until 3:30. After a short recess, Charlie and I will convene the annual meeting at 3:45. If you decide to leave during the day's question periods, please do so while *Charlie* is talking. (Act fast; he can be terse.)

The best reason to exit, of course, is to *shop*. We will help you do that by filling the 194,300-squarefoot hall that adjoins the meeting area with products from dozens of Berkshire subsidiaries. Last year, you did your part, and most locations racked up record sales. But you can do better. (A friendly warning: If I find sales are lagging, I get testy and lock the exits.)

GEICO will have a booth staffed by a number of its top counselors from around the country, all of them ready to supply you with auto insurance quotes. In most cases, GEICO will be able to give you a shareholder discount (usually 8%). This special offer is permitted by 44 of the 51 jurisdictions in which we operate. (One supplemental point: The discount is not additive if you qualify for another, such as that given certain groups.) Bring the details of your existing insurance and check out whether we can save you money. For at least 50% of you, I believe we can.

Be sure to visit the Bookworm. Among the more than 30 books and DVDs it will offer are two new books by my sons: Howard's *Fragile*, a volume filled with photos and commentary about lives of struggle around the globe and Peter's *Life Is What You Make It*. Completing the family trilogy will be the debut of my sister Doris's biography, a story focusing on her remarkable philanthropic activities. Also available will be *Poor Charlie's Almanack*, the story of my partner. This book is something of a publishing miracle – never advertised, yet year after year selling many thousands of copies from its Internet site. (Should you need to ship your book purchases, a nearby shipping service will be available.)

If you are a big spender – or, for that matter, merely a gawker – visit Elliott Aviation on the east side of the Omaha airport between noon and 5:00 p.m. on Saturday. There we will have a fleet of NetJets aircraft that will get your pulse racing.

An attachment to the proxy material that is enclosed with this report explains how you can obtain the credential you will need for admission to the meeting and other events. As for plane, hotel and car reservations, we have again signed up American Express (800-799-6634) to give you special help. Carol Pedersen, who handles these matters, does a terrific job for us each year, and I thank her for it. Hotel rooms can be hard to find,but work with Carol and you will get one.

At Nebraska Furniture Mart, located on a 77-acre site on 72nd Street between Dodge and Pacific, we will again be having "Berkshire Weekend" discount pricing. To obtain the Berkshire discount, you must make your purchases between Thursday, April 29th and Monday, May 3rd inclusive, and also present your meeting credential. The period's special pricing will even apply to the products of several prestigious manufacturers that normally have ironclad rules against discounting but which, in the spirit of our shareholder weekend, have made an exception for you. We appreciate their cooperation. NFM is open from 10 a.m. to 9 p.m. Monday through Saturday, and 10 a.m to 6 p.m on Sunday. On Saturday is having a Berkyville BBQ to which you are all invited.

At Borsheims, we will again have two shareholder-only events. The first will be a cocktail reception from 6 p.m. to 10 p.m. on Friday, April 30th. The second, the main gala, will be held on Sunday, May 2nd, from 9 a.m. to 4 p.m. On Saturday, we will be open until 6 p.m.

We will have huge crowds at Borsheims throughout the weekend. For your convenience, therefore, shareholder prices will be available from Monday, April 26th through Saturday, May 8th. During that period, please identify yourself as a shareholder by presenting your meeting credentials or a brokerage statement that shows you are a Berkshire holder. Enter with rhinestones; leave with diamonds. My daughter tells me that the more you buy, the more you save (kids say the darnedest things).

On Sunday, in the mall outside of Borsheims, a blindfolded Patrick Wolff, twice U.S. chess champion, will take on all comers – who will have their eyes wide open – in groups of six. Nearby, Norman Beck, a remarkable magician from Dallas, will bewilder onlookers.

Our special treat for shareholders this year will be the return of my friend, Ariel Hsing, the country's top-ranked junior table tennis player (and a good bet to win at the Olympics some day). Now 14, Ariel came to the annual meeting four years ago and demolished all comers, including me. (You can witness my humiliating defeat on YouTube; just type in Ariel Hsing Berkshire.)

Naturally, I've been plotting a comeback and will take her on outside of Borsheims at 1:00 p.m. on Sunday. It will be a three-point match, and after I soften her up, all shareholders are invited to try their luck at similar three-point contests. Winners will be given a box of See's candy. We will have equipment available, but bring your own paddle if you think it will help. (It won't.)

Gorat's will again be open exclusively for Berkshire shareholders on Sunday, May 2nd, and will beserving from 1 p.m. until 10 p.m. Last year, though, it was overwhelmed by demand. With many more diners expected this year, I've asked my friend, Donna Sheehan, at Piccolo's – another favorite restaurant of mine – to serve shareholders on Sunday as well. (Piccolo's giant root beer float is mandatory for any fan of fine dining.) I plan to eat at both restaurants: All of the weekend action makes me *really* hungry, and I have favorite dishes at each spot. Remember: To make a reservation at Gorat's, call 402-551-3733 on April 1st (*but not before*) and at Piccolo's call 402-342-9038.

Regrettably, we will not be able to have a reception for international visitors this year. Our count grew to about 800 last year, and my simply signing one item per person took about 2 and a half hours. Since we expect even more international visitors this year, Charlie and I decided we must drop this function. But be assured, we welcome every international visitor who comes.

Last year we changed our method of determining what questions would be asked at the meeting and received many dozens of letters applauding the new arrangement. We will therefore again have the same three financial journalists lead the question-and-answer period, asking Charlie and me questions that shareholders have submitted to them by e-mail.

The journalists and their e-mail addresses are: Carol Loomis, of Fortune, who may be e-mailed at **cloomis@fortunemail.com**; Becky Quick, of CNBC, at **BerkshireQuestions@cnbc.com,** and Andrew Ross Sorkin, of The New York Times, at **arsorkin@nytimes.com**. From the questions submitted, each journalist will choose the dozen or so he or she decides are the most interesting and important. The journalists have told me your question has the best chance of being selected if you keep it concise and include no more than two questions in any e-mail you send them. (In your e-mail, let the journalist know if you would like your name mentioned if your question is selected.)

Neither Charlie nor I will get so much as a clue about the questions to be asked. We know the journalists will pick some tough ones and that's the way we like it.

We will again have a drawing at 8:15 on Saturday at each of 13 microphones for those shareholders wishing to ask questions themselves. At the meeting, I will alternate the questions asked by the journalists with those from the winning shareholders. We've added 30 minutes to the question time and will probably have time for about 30 questions from each group.

At 86 and 79, Charlie and I remain lucky beyond our dreams. We were born in America; had terrific parents who saw that we got good educations; have enjoyed wonderful families and great health; and came equipped with a "business" gene that allows us to prosper in a manner hugely disproportionate to that experienced by many people who contribute as much or more to our society's well-being. Moreover, we have long had jobs that we love, in which we are helped in countless ways by talented and cheerful associates. Indeed, over the years, our work has become ever more fascinating; no wonder we tap-dance to work. If pushed, we would gladly pay substantial sums to have our jobs (but don't tell the Comp Committee).

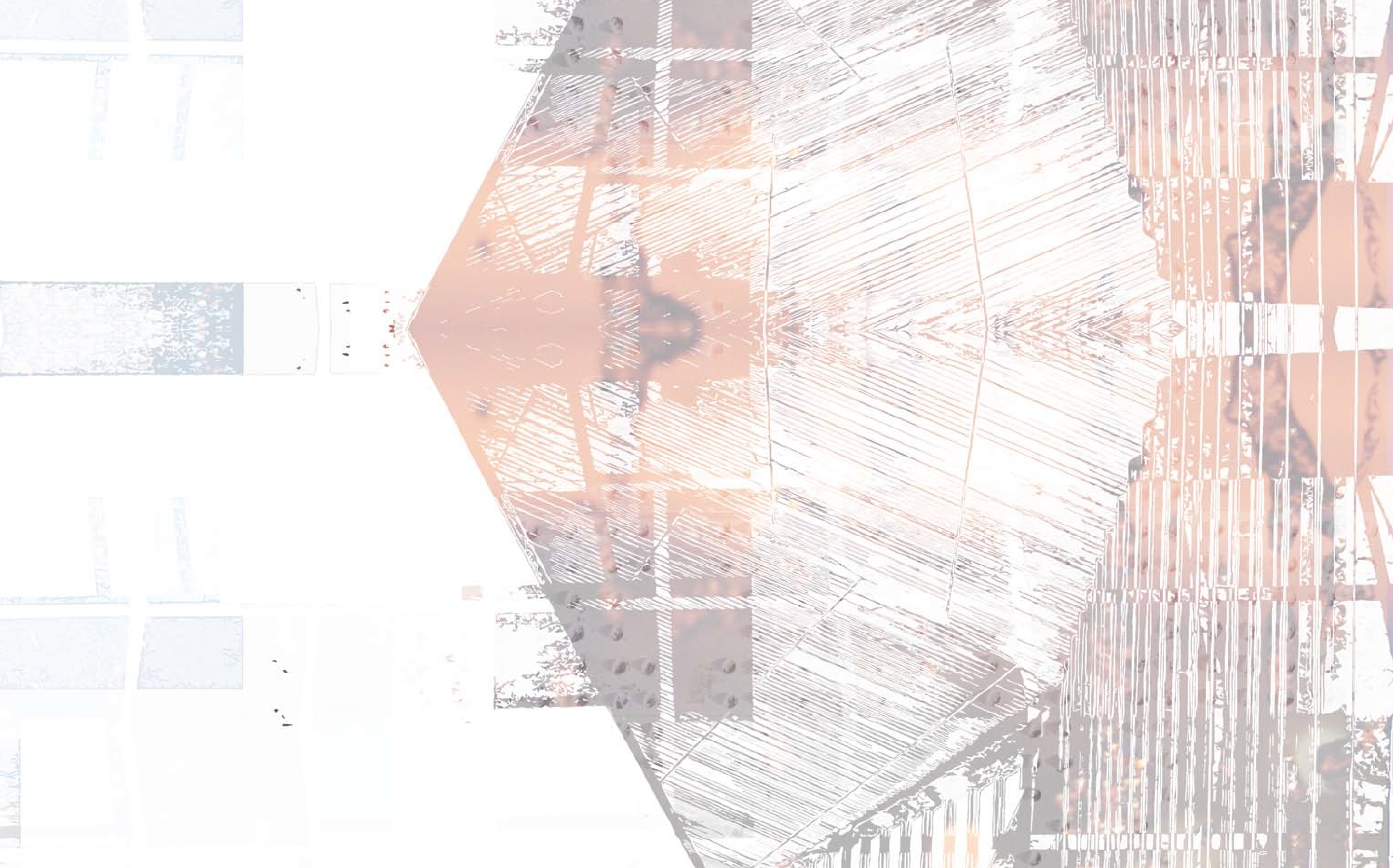
Nothing, however, is more fun for us than getting together with our shareholder-partners at Berkshire's annual meeting. So join us on May 1st at the Qwest for our annual Woodstock for Capitalists. We'll see you there.

February 26, 2010

P.S. Come by rail.

Warren E. Buffett

Chairman of the Board



# To the Shareholders of Bershire Hathaway Inc.

> "Berkshire has adhered to these principles for decades and will continue to do so long after I'm gone"

Our gain in net worth during 2009 was $21.8 billion, which increased the per-share book value of both our Class A and Class B stock by 19.8%. Over the last 45 years (that is, since present management took over) book value has grown from $19 to $84,487, a rate of 20.3% compounded annually.* Berkshire's recent acquisition of Burlington Northern Santa Fe (BNSF) has added at least 65,000 shareholders to the 500,000 or so already on our books. It's important to Charlie Munger, my long-time partner, and me that all of our owners understand Berkshire's operations, goals, limitations and culture.

In each annual report, consequently, we restate the economic principles that guide us. This year these principles appear on pages 89-94 and I urge all of you – but particularly our new shareholders – to read them. Berkshire has adhered to these principles for decades and will continue to do so long after I'm gone. In this letter we will also review some of the basics of our business, hoping to provide both a freshman orientation session for our BNSF newcomers and a refresher course for Berkshire veterans.

# Business Activities

**Berkshire Hathaway Inc.** is a holding company owning subsidiaries that engage in a number of diverse business activities including property and casualty insurance and reinsurance, utilities and energy, freight rail transportation, finance, manufacturing, services and retailing. Included in the group of subsidiaries that underwrite property and casualty insurance and reinsurance is GEICO, the third largest private passenger auto insurer in the United States and two of the largest reinsurers in the world, General Re and the Berkshire Hathaway Reinsurance Group. Other subsidiaries that underwrite property and casualty insurance include National Indemnity Company and affiliated insurance entities, Medical Protective Company, Applied Underwriters, U.S. Liability Insurance Company, Central States Indemnity Company, Kansas Bankers Surety, Cypress Insurance Company, BoatU.S. and several other subsidiaries referred to as the "Homestate Companies."

MidAmerican Energy Holdings Company ("MidAmerican") is an international energy holding company owning a wide variety of operating companies engaged in the generation, transmission and distribution of energy. Among MidAmerican's operating energy companies are Northern Electric and Yorkshire Electricity; MidAmerican Energy Company; Pacific Power and Rocky Mountain Power; and Kern River Gas TransmissionCompany and Northern Natural Gas. In addition, MidAmerican owns HomeServices of America, a real estate brokerage firm. Burlington Northern Santa Fe Corporation ("BNSF"), acquired by Berkshire on February 12, 2010, operates one of the largest railroad systems in North America. In serving the Midwest, Pacific Northwest and the Western, Southwestern and Southeastern regions and ports of the U.S., BNSF transports a range of products and commodities derived from manufacturing, agricultural and natural resource industries.

Berkshire's finance and financial products businesses primarily engage in proprietary investing strategies (BH Finance), commercial and consumer lending (*Berkshire Hathaway Credit Corporation* and *Clayton Homes*) and transportation equipment and furniture leasing (*XTRA* and *CORT*). *McLane Company* is a wholesale distributor of groceries and nonfood items to discount retailers, convenience stores, quick service restaurants and others. *The Marmon Group* is an international association of approximately 130 manufacturing and service businesses that operate independently within diverse business sectors. *Shaw Industries* is the world's largest manufacturer of tufted broadloom carpet.

Numerous business activities are conducted through Berkshire's other manufacturing, services and retailing subsidiaries. *Benjamin Moore* is a formulator, manufacturer and retailer of architectural and industrial coatings. *Johns Manville* is a leading manufacturer of insulation and building products. *Acme Building Brands* is a manufacturer of face brick and concrete masonry products. *MiTek Inc.* produces steel connector products and engineering software for the building components market. *Fruit of the Loom, Russell, Vanity Fair, Garan, Fechheimer, H.H. Brown Shoe Group* and *Justin Brands* manufacture, license and distribute apparel and footwear under a variety of brand names. *FlightSafety International* provides training to aircraft operators. *NetJets* provides fractional ownership programs for general aviation aircraft. *Nebraska Furniture Mart, R.C.Willey Home Furnishings, Star Furniture* and *Jordan's Furniture* are retailers of home furnishings. *Borsheims, Helzberg Diamond Shops* and *Ben Bridge Jeweler* are retailers of fine jewelry.

In addition, other manufacturing, service and retail businesses include: *The Buffalo News*, a publisher of a daily and Sunday newspaper; *See's Candies*, a manufacturer and seller of boxed chocolates and otherconfectionery products; *Scott Fetzer*, a diversified manufacturer and distributor of commercial and industrial products; *Albecca*, a designer, manufacturer and distributor of high-quality picture framing products; *CTB International*, a manufacturer of equipment for the livestock and agricultural industries; *International Dairy Queen*, a licensor and service provider to about 5,800 stores that offer prepared dairy treats and food; *The Pampered Chef*, the premier direct seller of kitchen tools in the U.S.; *Forest River*, a leading manufacturer of leisure vehicles in the U.S.; *Business Wire*, the leading global distributor of corporate news, multimedia andregulatory filings; *Iscar Metalworking Companies*, an industry leader in the metal cutting tools business; *TTI, Inc.*, a leading distributor of electronic components and *Richline Group*, a leading jewelry manufacturer.

Operating decisions for the various Berkshire businesses are made by managers of the business units. Investment decisions and all other capital allocation decisions are made for Berkshire and its subsidiaries by Warren E. Buffett, in consultation with Charles T. Munger. Mr. Buffett is Chairman and Mr. Munger is Vice Chairman of Berkshire's Board of Directors.

## BERKSHIRE'S CORPORATE PERFORMANCE VX THE S&P 500

| | *Annual Percentage Change* | | |
|---|---|---|---|
| *Year* | *in Per-Share Book Value of Berkshire (1)* | *in S&P 500 with Dividends Included (2)* | *Relative Results (1)-(2)* |
| 1965 | 23.8 | 10.0 | 13.8 |
| 1966 | 20.3 | (11.7) | 32.0 |
| 1967 | 11.0 | 30.9 | 19.9) |
| 1968 | 19.0 | 11.0 | 8.0 |
| 1969 | 16.2 | (8.4) | 24.6 |
| 1970 | 12.0 | 3.9 | 8.1 |
| 1971 | 16.4 | 14.6 | 1.8 |
| 1972 | 21.7 | 18.9 | 2.8 |
| 1973 | 4.7 | (14.8) | 19.5 |
| 1974 | 5.5 | (26.4) | 31.9 |
| 1975 | 21.9 | 37.2 | (15.3) |
| 1976 | 59.3 | 23.6 | 35.7 |
| 1977 | 31.9 | (7.4) | 39.3 |
| 1978 | 24.0 | 6.4 | 17.6 |
| 1979 | 35.7 | 18.2 | 17.5 |
| 1980 | 19.3 | 32.3 | (13.0) |
| 1981 | 31.4 | (5.0) | 36.4 |
| 1982 | 40.0 | 21.4 | 18.6 |
| 1983 | 32.3 | 22.4 | 9.9 |
| 1984 | 13.6 | 6.1 | 7.5 |
| 1985 | 48.2 | 31.6 | 16.6 |
| 1986 | 26.1 | 18.6 | 7.5 |
| 1987 | 19.5 | 5.1 | 14.4 |
| 1988 | 20.1 | 16.6 | 3.5 |
| 1989 | 44.4 | 31.7 | 12.7 |
| 1990 | 7.4 | (3.1) | 10.5 |
| 1991 | 39.6 | 30.5 | 9.1 |
| 1992 | 20.3 | 7.6 | 12.7 |
| 1993 | 14.3 | 10.1 | 4.2 |
| 1994 | 13.9 | 1.3 | 12.6 |
| 1995 | 43.1 | 37.6 | 5.5 |
| 1996 | 31.8 | 23.0 | 8.8 |
| 1997 | 34.1 | 33.4 | .7 |
| 1998 | 48.3 | 28.6 | 19.7 |
| 1999 | .5 | 21.0 | (20.5) |
| 2000 | 6.5 | (9.1) | 15.6 |
| 2001 | (6.2) | (11.9) | 5.7 |
| 2002 | 10.0 | (22.1) | 32.1 |
| 2003 | 21.0 | 28.7 | (7.7) |
| 2004 | 10.5 | 10.9 | (.4) |
| 2005 | 6.4 | 4.9 | 1.5 |
| 2006 | 18.4 | 15.8 | 2.6 |
| 2007 | 11.0 | 5.5 | 5.5 |
| 2008 | 9.6) | (37.0) | 27.4 |
| 2009 | 19.8 | 26.5 | (6.7) |
| Compounded Annual Gain 1965-2009 | 20.3% | 9.3% | 11.0 |
| Overall Gain 1964-2009 | 434,057% | 5,430% | |

Notes: Data are for calendar years with these exceptions: 1965 and 1966, year ended 9/30; 1967, 15 months ended 12/31.

Starting in 1979, accounting rules required insurance companies to value the equity securities they hold at market rather than at the lower of cost or market, which was previously the requirement. In this table, Berkshire's results through 1978 have been restated to conform to the changed rules. In all other respects, the results are calculated using the numbers originally reported.

The S&P 500 numbers are pre-tax whereas the Berkshire numbers are after-tax. If a corporation such as Berkshire were simply to have owned the S&P 500 and accrued the appropriate taxes, its results would have lagged the S&P 500 in years when that index showed a positive return, but would have exceeded the S&P 500 in years when the index showed a negative return. Over the years, the tax costs would have caused the aggregate lag to be substantial.

# How We Measure Ourselves

Our metrics for evaluating our managerial performance are displayed on the previous page. From the start, Charlie and I have believed in having a rational and unbending standard for measuring what we have – or have not – accomplished. That keeps us from the temptation of seeing where the arrow of performance lands and *then* painting the bull's eye around it.

Selecting the S&P 500 as our bogey was an easy choice because our shareholders, at virtually no cost, can match its performance by holding an index fund. Why should they pay us for merely duplicating that result?

A more difficult decision for us was how to measure the progress of Berkshire versus the S&P. There are good arguments for simply using the change in our stock price. Over an extended period of time, in fact, that is the best test. But year-to-year market prices can be extraordinarily erratic. Even evaluations covering as long as a decade can be greatly distorted by foolishly high or low prices at the beginning or end of the measurement period. Steve Ballmer, of Microsoft, and Jeff Immelt, of GE, can tell you about that problem, suffering as they do from the nosebleed prices at which their stocks traded when they were handed the managerial baton.

The ideal standard for measuring our yearly progress would be the change in Berkshire's per-share intrinsic value. Alas, that value cannot be calculated with anything close to precision, so we instead use a crude proxy for it: per-share book value. Relying on this yardstick has its shortcomings, which we discuss on pages 92 and 93. Additionally, book value at most companies understates intrinsic value, and that is certainly the case at Berkshire. In aggregate, our businesses are worth considerably more than the values at which they are carried on our books. In our all-important insurance business, moreover, the difference is huge. Even so, Charlie and I believe that our book value – understated though it is – supplies the most useful tracking device for changes in intrinsic value. By this measurement, as the opening paragraph of this letter states, our book value since the start of fiscal 1965 has grown at a rate of 20.3% compounded annually.

We should note that had we instead chosen *market prices* as our yardstick, Berkshire's results would look better, showing a gain since the start of fiscal 1965 of 22% compounded annually. Surprisingly, this modest difference in annual compounding rate leads to an 801,516% market-value gain for the entire 45-year period compared to the book-value gain of 434,057% (shown on page 2). Our market gain is better because in 1965 Berkshire shares sold at an appropriate discount to the book value of its underearning textile assets, whereas today Berkshire shares regularly sell at a premium to the accounting values of its first-class businesses.

Summed up, the table on page 2 conveys three messages, two positive and one hugely negative. First,we have never had *any* five-year period beginning with 1965-69 and ending with 2005-09 – and there have been 41 of these – during which our gain in book value did not exceed the S&P's gain. Second, though we have lagged the S&P in some years that were positive for the market, we have consistently done better than the S&P in the eleven years during which it delivered negative results. In other words, our defense has been better than our offense, and that's likely to continue.

The big minus is that our performance advantage has shrunk dramatically as our size has grown, an unpleasant trend that is *certain* to continue. To be sure, Berkshire has many outstanding businesses and a cadre of truly great managers, operating within an unusual corporate culture that lets them maximize their talents. Charlie and I believe these factors will continue to produce better-than-average results over time. But huge sums forge their own anchor and our future advantage, if any, will be a small fraction of our historical edge.

All per-share figures used in this report apply to Berkshire's A shares. Figures for the B shares are 1/1500th of those shown for A.

> "From the start, Charlie and I have believed in having a rational and unbending standard for measuring what we have – or have not – accomplished. That keeps us from the temptation of seeing where the arrow of performance lands and *then* painting the bull's eye around it."

# What We Don't Do

Long ago, Charlie laid out his strongest ambition: "All I want to know is where I'm going to die, so I'll never go there." That bit of wisdom was inspired by Jacobi, the great Prussian mathematician, who counseled "Invert, always invert" as an aid to solving difficult problems. (I can report as well that this inversion approachworks on a less lofty level: Sing a country song in reverse, and you will quickly recover your car, house and wife.) Here are a few examples of how we apply Charlie's thinking at Berkshire:

- Charlie and I avoid businesses whose futures we can't evaluate, no matter how exciting their products may be. In the past, it required no brilliance for people to foresee the fabulous growth that awaited such industries as autos (in 1910), aircraft (in 1930) and television sets (in 1950). But the future then also included competitive dynamics that would decimate almost all of the companies entering those industries. Even the survivors tended to come away bleeding.

Just because Charlie and I can clearly see dramatic growth ahead for an industry does not mean we can judge what its profit margins and returns on capital will be as a host of competitors battle for supremacy. At Berkshire we will stick with businesses whose profit picture for decades to come seems reasonably predictable. Even then, we will make plenty of mistakes.

- We will never become dependent on the kindness of strangers. Too-big-to-fail is not a fallback position at Berkshire. Instead, we will always arrange our affairs so that any requirements for cash we may conceivably have will be dwarfed by our own liquidity. Moreover, that liquidity will be constantly refreshed by a gusher of earnings from our many and diverse businesses.

When the financial system went into cardiac arrest in September 2008, Berkshire was a *supplier* of liquidity and capital to the system, not a supplicant. At the very peak of the crisis, we poured $15.5 billion into a business world that could otherwise look only to the federal government for help. Of that, $9 billion went to bolster capital at three highly-regarded and previously-secure American businesses that needed – *without delay* – our tangible vote of confidence. The remaining $6.5 billion satisfied our commitment to help fund the purchase of Wrigley, a deal that was completed without pause while, elsewhere, panic reigned.We pay a steep price to maintain our premier financial strength. The $20 billion-plus of cashequivalent assets that we customarily hold is earning a pittance at present. But we sleep well.

- We tend to let our many subsidiaries operate on their own, without our supervising and monitoring them to any degree. That means we are sometimes late in spotting management problems and that both operating and capital decisions are occasionally made with which Charlie and I would have disagreed had we been consulted. Most of our managers, however, use the independence we grant them magnificently, rewarding our confidence by maintaining an owneroriented attitude that is invaluable and too seldom found in huge organizations. We would rather suffer the visible costs of a few bad decisions than incur the many invisible costs that come from decisions made too slowly – or not at all – because of a stifling bureaucracy.

With our acquisition of BNSF, we now have about 257,000 employees and literally hundreds of different operating units. We hope to have many more of each. But we will never allow Berkshire to become some monolith that is overrun with committees, budget presentations and multiple layers of management. Instead, we plan to operate as a collection of separately-managed mediumsized and large businesses, most of whose decision-making occurs at the operating level. Charlie and I will limit ourselves to allocating capital, controlling enterprise risk, choosing managers and setting their compensation.

- We make no attempt to woo Wall Street. Investors who buy and sell based upon media or analyst commentary are not for us. Instead we want *partners* who join us at Berkshire because they wish to make a long-term investment in a *business* they themselves understand and because it's one that follows policies with which they concur. If Charlie and I were to go into a small venture with a few partners, we would seek individuals in sync with us, knowing that common goals and a shared destiny make for a happy business "marriage" between owners and managers. Scaling up to giant size doesn't change that truth.

> "We make no attempt to woo Wall Street"

To build a compatible shareholder population, we try to communicate with our owners directly and informatively. Our goal is to tell you what we would like to know if our positions were reversed. Additionally, we try to post our quarterly and annual financial information on the Internet early on weekends, thereby giving you and other investors plenty of time during a non-trading period to digest just what has happened at our multi-faceted enterprise. (Occasionally, SEC deadlines force a non-Friday disclosure.) These matters simply can't be adequately summarized in a few paragraphs, nor do they lend themselves to the kind of catchy headline that journalists sometimes seek. Last year we saw, in one instance, how sound-bite reporting can go wrong. Among the 12,830 words in the annual letter was this sentence: "We are certain, for example, that the economy will be in shambles throughout 2009 – and probably well beyond – but that conclusion does not tell us whether the market will rise or fall." Many news organizations reported – indeed, blared – the first part of the sentence while making no mention whatsoever of its ending. I regard this as terrible journalism: Misinformed readers or viewers may well have thought that Charlie and I were forecasting bad things for the stock market, though we had not only in that sentence, but also elsewhere, made it clear we weren't predicting the market at all. Any investors who were misled by the sensationalists paid a big price: The Dow closed the day of the letter at 7,063 and finished the year at 10,428. Given a few experiences we've had like that, you can understand why I prefer that our communications with you remain as direct and unabridged as possible.

# Operating Sectors

Let's move to the specifics of Berkshire's operations. We have four major operating sectors, each differing from the others in balance sheet and income account characteristics. Therefore, lumping them together,as is standard in financial statements, impedes analysis. So we'll present them as four separate businesses, which is how Charlie and I view them.

## Insurance

Our property-casualty (P/C) insurance business has been the engine behind Berkshire's growth and will continue to be. It has worked wonders for us. We carry our P/C companies on our books at $15.5 billion more than their net tangible assets, an amount lodged in our "Goodwill" account. These companies, however, are worth far more than their carrying value – and the following look at the economic model of the P/C industry will tell you why.

Insurers receive premiums upfront and pay claims later. In extreme cases, such as those arising from certain workers' compensation accidents, payments can stretch over decades. This collect-now, pay-later model leaves us holding large sums – money we call "float" – that will eventually go to others. Meanwhile, we get to invest this float for Berkshire's benefit. Though individual policies and claims come and go, the amount of float we hold remains remarkably stable in relation to premium volume. Consequently, as our business grows, so does our float.

If premiums exceed the total of expenses and eventual losses, we register an underwriting profit that adds to the investment income produced from the float. This combination allows us to enjoy the use of free money – and, better yet, get *paid* for holding it. Alas, the hope of this happy result attracts intense competition, so vigorous in most years as to cause the P/C industry as a whole to operate at a significant underwriting *loss*. This loss, in effect, is what the industry pays to hold its float. Usually this cost is fairly low, but in some catastrophe-ridden years the cost from underwriting losses more than eats up the income derived from use of float.

In my perhaps biased view, Berkshire has the best large insurance operation in the world. And I will absolutely state that we have the best managers. Our float has grown from $16 million in 1967, when we entered the business, to $62 billion at the end of 2009. Moreover, we have now operated at an underwriting profit for seven consecutive years. I believe it likely that we will continue to underwrite profitably in most – though certainly not all – future years. If we do so, our float will be cost-free, much as if someone deposited $62 billion with us that we could invest for our own benefit without the payment of interest.

Let me emphasize again that cost-free float is *not* a result to be expected for the P/C industry as a whole: In most years, premiums have been inadequate to cover claims plus expenses. Consequently, the industry's overall return on tangible equity has for many decades fallen far short of that achieved by the S&P 500. Outstanding economics exist at Berkshire only because we have some outstanding managers running some unusual businesses. Our insurance CEOs deserve your thanks, having added many billions of dollars to Berkshire's value. It's a pleasure for me to tell you about these all-stars.

> "In my perhaps biased view, Berkshire has the best large insurance operation in the world. And I will absolutely state that we have the best managers."

### PROPERTY-CASUALTY AND LIFE INSURANCE BUSINESSES

| | UNDERWRITING PROFIT | | YEAREND FLOAT | |
|---|---|---|---|---|
| INSURANCE OPERATIONS (in millions) | 2009 | 2008 | 2009 | 2008 |
| General Re | $477 | $342 | $21,014 | $21,074 |
| BH Reinsurance | 349 | 1,324 | 26,223 | 24,221 |
| GEICO | 649 | 916 | 9,613 | 8,454 |
| Other Primary | 84 | 210 | 5,061 | 4,739 |
| | | | $61,911 | $58,488 |

## GEICO

Let's start at GEICO, which is known to all of you because of its $800 million annual advertising budget (close to twice that of the runner-up advertiser in the auto insurance field). GEICO is managed by Tony Nicely, who joined the company at 18. Now 66, Tony still tap-dances to the office every day, just as I do at 79. We both feel lucky to work at a business we love. GEICO's customers have warm feelings toward the company as well. Here's proof: Since Berkshire acquired control of GEICO in 1996, its market share has increased from 2.5% to 8.1%, a gain reflecting the net addition of seven million policyholders. Perhaps they contacted us because they thought our gecko was cute, but they bought from us to save important money. (Maybe you can as well; call 1-800-847-7536 or go to www.GEICO.com.) And they've stayed with us because they like our service as well as our price.

Berkshire acquired GEICO in two stages. In 1976-80 we bought about one-third of the company's stock for $47 million. Over the years, large repurchases by the company of its own shares caused our position to grow to about 50% without our having bought any more shares. Then, on January 2, 1996, we acquired the remaining 50% of GEICO for $2.3 *billion* in cash, about 50 times the cost of our original purchase.

An old Wall Street joke gets close to our experience:

Customer: Thanks for putting me in XYZ stock at 5. I hear it's up to 18.

Broker: Yes, and that's just the beginning. In fact, the company is doing so well now, that it's an even better buy at 18 than it was when you made your purchase.

Customer: Damn, I knew I should have waited.

GEICO's growth may slow in 2010. U.S. vehicle registrations are actually down because of slumping auto sales. Moreover, high unemployment is causing a growing number of drivers to go uninsured. (That's illegal almost everywhere, but if you've lost your job and still want to drive . . .) Our "low-cost producer" status, however, is sure to give us significant gains in the future. In 1995, GEICO was the country's sixth largest auto insurer; now we are number three. The company's float has grown from $2.7 billion to $9.6 billion. Equally important, GEICO has operated at an underwriting profit in 13 of the 14 years Berkshire has owned it. I became excited about GEICO in January 1951, when I first visited the company as a 20-year-old student. Thanks to Tony, I'm even more excited today.

## Ajit

A hugely important event in Berkshire's history occurred on a Saturday in 1985. Ajit Jain came into our office in Omaha – and I immediately knew we had found a superstar. (He had been discovered by Mike Goldberg, now elevated to St. Mike.)

We immediately put Ajit in charge of National Indemnity's small and struggling reinsurance operation.Over the years, he has built this business into a one-of-a-kind giant in the insurance world.

Staffed today by only 30 people, Ajit's operation has set records for transaction size in several areas of insurance. Ajit writes billion-dollar limits – and then keeps every dime of the risk instead of laying it off with other insurers. Three years ago, he took over huge liabilities from Lloyds, allowing it to clean up its relationship with 27,972 participants ("names") who had written problem-ridden policies that at one point threatened the survival of this 322-year-old institution. The premium for that single contract was $7.1 billion. During 2009, he negotiated a life reinsurance contract that could produce $50 billion of premium for us over the next 50 or so years.

Ajit's business is just the opposite of GEICO's. At that company, we have millions of small policies that largely renew year after year. Ajit writes relatively few policies, and the mix changes significantly from year to year. Throughout the world, he is known as the man to call when something both very large and unusual needs to be insured.

If Charlie, I and Ajit are ever in a sinking boat – and you can only save one of us – swim to Ajit.

## General Re

Our third insurance powerhouse is General Re. Some years back this operation was troubled; now it is a gleaming jewel in our insurance crown. Under the leadership of Tad Montross, General Re had an outstanding underwriting year in 2009, while also delivering us unusually large amounts of float per dollar of premium volume. Alongside General Re's P/C business, Tad and his associates have developed a major life reinsurance operation that has grown increasingly valuable.Last year General Re finally attained 100% ownership of Cologne Re, which since 1995 has been a key – though only partially-owned – part of our presence around the world. Tad and I will be visiting Cologne in September to thank its managers for their important contribution to Berkshire.

Finally, we own a group of smaller companies, most of them specializing in odd corners of the insurance world. In aggregate, their results have consistently been profitable and, as the table below shows, the float they provide us is substantial. Charlie and I treasure these companies and their managers.

And now a painful confession: Last year your chairman closed the book on a very expensive business fiasco entirely of his own making. For many years I had struggled to think of side products that we could offer our millions of loyal GEICO customers. Unfortunately, I finally succeeded, coming up with a brilliant insight that we should market our own credit card. I reasoned that GEICO policyholders were likely to be good credit risks and, assuming we offered an attractive card, would likely favor us with their business. We got business all right – but of the wrong type. Our pre-tax losses from credit-card operations came to about $6.3 million before I finally woke up. We then sold our $98 million portfolio of troubled receivables for 55¢ on the dollar, losing an additional $44 million. GEICO's managers, it should be emphasized, were never enthusiastic about my idea. They warned me that instead of getting the cream of GEICO's customers we would get the – – – – – well, let's call it the non-cream. I subtly indicated that I was older and wiser. I was just older.

# Regulated Utility Business

Berkshire has an 89.5% interest in MidAmerican Energy Holdings, which owns a wide variety of utility operations. The largest of these are (1) Yorkshire Electricity and Northern Electric, whose 3.8 million end users make it the U.K.'s third largest distributor of electricity; (2) MidAmerican Energy, which serves 725,000 electric customers, primarily in Iowa; (3) Pacific Power and Rocky Mountain Power, serving about 1.7 million electric customers in six western states; and (4) Kern River and Northern Natural pipelines, which carry about 8% of the natural gas consumed in the U.S.

MidAmerican has two terrific managers, Dave Sokol and Greg Abel. In addition, my long-time friend, Walter Scott, along with his family, has a major ownership position in the company. Walter brings extraordinary business savvy to *any* operation. Ten years of working with Dave, Greg and Walter have reinforced my original belief: Berkshire couldn't have better partners. They are truly a dream team.

Somewhat incongruously, MidAmerican also owns the second largest real estate brokerage firm in the U.S., HomeServices of America. This company operates through 21 locally-branded firms that have 16,000 agents. Though last year was again a terrible year for home sales, HomeServices earned a modest sum. It also acquired a firm in Chicago and will add other quality brokerage operations when they are available at sensible prices. A decade from now, HomeServices is likely to be much larger.

Our regulated electric utilities, offering monopoly service in most cases, operate in a symbiotic manner with the customers in their service areas, with those users depending on us to provide first-class service and invest for their future needs. Permitting and construction periods for generation and major transmission facilities stretch way out, so it is incumbent on us to be far-sighted. We, in turn, look to our utilities' regulators (acting on behalf of our customers) to allow us an appropriate return on the huge amounts of capital we must deploy to meet future needs. We shouldn't expect our regulators to live up to their end of the bargain unless we live up to ours.

Dave and Greg make sure we do just that. National research companies consistently rank our Iowa and Western utilities at or near the top of their industry. Similarly, among the 43 U.S. pipelines ranked by a firm named Mastio, our Kern River and Northern Natural properties tied for second place.

Moreover, we continue to pour huge sums of money into our operations so as to not only prepare for the future but also make these operations more environmentally friendly. Since we purchased MidAmerican ten years ago, it has *never* paid a dividend. We have instead used earnings to improve and expand our properties in each of the territories we serve. As one dramatic example, in the last three years our Iowa and Western utilities have earned $2.5 billion, while in this same period spending $3 billion on wind generation facilities.

MidAmerican has consistently kept its end of the bargain with society and, to society's credit, it has reciprocated: With few exceptions, our regulators have promptly allowed us to earn a fair return on the everincreasing sums of capital we must invest. Going forward, we will do whatever it takes to serve our territories in the manner they expect. We believe that, in turn, we will be allowed the return we deserve on the funds we invest.

In earlier days, Charlie and I shunned capital-intensive businesses such as public utilities. Indeed, the best businesses by far for owners continue to be those that have high returns on capital and that require little incremental investment to grow. We are fortunate to own a number of such businesses, and we would love to buy more. Anticipating, however, that Berkshire will generate ever-increasing amounts of cash, we are today quite willing to enter businesses that regularly require large capital expenditures. We expect only that these businesses have reasonable expectations of earning decent returns on the incremental sums they invest. If our expectations are met – and we believe that they will be – Berkshire's ever-growing collection of good to great businesses should produce above-average, though certainly not spectacular, returns in the decades ahead.

Our BNSF operation, it should be noted, has certain important economic characteristics that resemble those of our electric utilities. In both cases we provide fundamental services that are, and will remain, essential to the economic well-being of our customers, the communities we serve, and indeed the nation. Both will require heavy investment that greatly exceeds depreciation allowances for decades to come. Both must also plan far ahead to satisfy demand that is expected to outstrip the needs of the past. Finally, both require wise regulators who will provide certainty about allowable returns so that we can confidently make the huge investments required to maintain, replace and expand the plant.

We see a "social compact" existing between the public and our railroad business, just as is the case with our utilities. If either side shirks its obligations, both sides will inevitably suffer. Therefore, both parties to the compact should – and we believe will – understand the benefit of behaving in a way that encourages good behavior by the other. It is inconceivable that our country will realize anything close to its full economic potential without its possessing first-class electricity and railroad systems. We will do our part to see that they exist.

In the future, BNSF results will be included in this "regulated utility" section. Aside from the two businesses having similar underlying economic characteristics, both are logical users of substantial amounts of debt that is not guaranteed by Berkshire. Both will retain most of their earnings. Both will earn and invest large sums in good times or bad, though the railroad will display the greater cyclicality. Overall, we expect this regulated sector to deliver significantly increased earnings over time, albeit at the cost of our investing many tens – yes, tens – of billions of dollars of incremental equity capital.

## MIDAMERICAN'S OPERATIONS

| | EARNING (in millions) | |
|---|---|---|
| | 2009 | 2008 |
| U.K. utilities | $248 | $339 |
| Iowa utility | 285 | 425 |
| Western utilities | 788 | 703 |
| Pipelines | 457 | 595 |
| HomeServices | 43 | (45) |
| Other (net) | 25 | 186 |
| Operating earnings before corporate interest and taxes | 1,846 | 2,203 |
| Constellation Energy * | | 1,092 |
| Interest, other than to Berkshire | (318) | (332) |
| Interest on Berkshire junior debt | (58) | (111) |
| Income tax | (313) | (1,002) |
| Net earnings | $1,157 | $1,850 |
| Earnings applicable to Berkshire ** | $ 1,071 | $1,704 |
| Debt owed to others | 19,579 | 19,145 |
| Debt owed to Berkshire | 353 | 1,087 |

*Consists of a breakup fee of $175 million and a profit on our investment of $917 million.
**Includes interest earned by Berkshire (net of related income taxes) of $38 in 2009 and $72 in 2008.

# Manufacturing, Service and Retailing Operations

Our activities in this part of Berkshire cover the waterfront. Let's look, though, at a summary balance sheet and earnings statement for the entire group.

Almost all of the many and widely-diverse operations in this sector suffered to one degree or another from 2009's severe recession. The major exception was McLane, our distributor of groceries, confections and non-food items to thousands of retail outlets, the largest by far Wal-Mart.

Grady Rosier led McLane to record pre-tax earnings of $344 million, which even so amounted to only slightly more than one cent per dollar on its huge sales of $31.2 billion. McLane employs a vast array of physical assets – practically all of which it owns – including 3,242 trailers, 2,309 tractors and 55 distribution centers with 15.2 million square feet of space. McLane's prime asset, however, is Grady.

Among the businesses we own that have major exposure to the depressed industrial sector, both Marmon and Iscar turned in relatively strong performances. Frank Ptak's Marmon delivered a 13.5% pre-tax profit margin, a record high. Though the company's sales were down 27%, Frank's cost-conscious management mitigated the decline in earnings.

Nothing stops Israel-based Iscar – not wars, recessions or competitors. The world's two other leading suppliers of small cutting tools both had very difficult years, each operating at a loss throughout much of the year. Though Iscar's results were down significantly from 2008, the company regularly reported profits, even while it was integrating and rationalizing Tungaloy, the large Japanese acquisition that we told you about last year. When manufacturing rebounds, Iscar will set new records. Its incredible managerial team of Eitan Wertheimer, Jacob Harpaz and Danny Goldman will see to that.

Every business we own that is connected to residential and commercial construction suffered severely in 2009. Combined pre-tax earnings of Shaw, Johns Manville, Acme Brick, and MiTek were $227 million, an 82.5% decline from $1.295 billion in 2006, when construction activity was booming. These businesses continue to bump along the bottom, though their competitive positions remain undented.

## BALANCE SHEET 12/31/09 (in millions)

| *Assets* | |
|---|---|
| Cash and equivalents | $3,018 |
| Accounts and notes receivable | 5,066 |
| Inventory | 6,147 |
| Other current assets | 625 |
| Total current assets | 14,856 |
| Goodwill and other intangibles | 16,499 |
| Fixed assets | 15,374 |
| Other assets | 2,070 |
| | $48,799 |

| *Liabilities and Equity* | |
|---|---|
| Notes payable | $ 1,842 |
| Other current liabilities | 7,414 |
| Total current liabilities | 9,256 |
| Deferred taxes | 2,834 |
| | |
| Term debt and other liabilities | 6,240 |
| Equity | 30,469 |
| | $48,799 |

## EARNINGS STATEMENT (in millions)

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Revenues | $61,665 | $66,099 | $59,100 |
| Operating expenses (including depreciation of $1,422 in 2009, $1,280 in 2008 and $955 in 2007) | 59,509 | 61,937 | 55,026 |
| Interest expense | 98 | 139 | 127 |
| Pre-tax earnings | 2,058* | 4,023* | 3,947* |
| Income taxes and minority interests | 945 | 1,740 | 1,594 |
| Net income | $ 1,113 | $ 2,283 | $ 2,353 |

*Does not include purchase-accounting adjustments.

The major problem for Berkshire last year was NetJets, an aviation operation that offers fractional ownership of jets. Over the years, it has been enormously successful in establishing itself as the premier company in its industry, with the value of its fleet far exceeding that of its three major competitors *combined.* Overall, our dominance in the field remains unchallenged.

NetJets' business operation, however, has been another story. In the eleven years that we have owned the company, it has recorded an aggregate pre-tax loss of $157 million. Moreover, the company's debt has soared from $102 million at the time of purchase to $1.9 billion in April of last year. Without Berkshire's guarantee of this debt, NetJets would have been out of business. It's clear that I failed you in letting NetJets descend into this condition. But, luckily, I have been bailed out.

Dave Sokol, the enormously talented builder and operator of MidAmerican Energy, became CEO of NetJets in August. His leadership has been transforming: Debt has already been reduced to $1.4 billion, and, after suffering a staggering loss of $711 million in 2009, the company is now solidly profitable.

We had a number of companies at which profits improved even as sales contracted, always an exceptional managerial achievement. Here are the CEOs who made it happen:

| COMPANY | CEO |
|---|---|
| Benjamin Moore (paint) | Denis Abrams |
| Borsheims (jewelry retailing) | Susan Jacques |
| H. H. Brown (manufacturing and retailingof shoes) | Jim Issler |
| CTB (agricultural equipment) | Vic Mancinelli |
| Dairy Queen, | John Gainor |
| Nebraska Furniture Mart (furniture retailing) | Ron and Irv Blumkin |
| Pampered Chef (direct sales of kitchen tools) | Marla Gottschalk |
| See's (manufacturing and retailing of candy) | Brad Kinstler |
| Star Furniture (furniture retailing) | Bill Kimbrell. |

Most important, none of the changes wrought by Dave have in any way undercut the top-of-the-line standards for safety and service that Rich Santulli, NetJets' previous CEO and the father of the fractionalownership industry, insisted upon. Dave and I have the strongest possible personal interest in maintaining these standards because we and our families use NetJets for almost all of our flying, as do many of our directors and managers. None of us are assigned special planes nor crews. We receive exactly the same treatment as any other owner, meaning we pay the same prices as everyone else does when we are using our personal contracts. In short, we eat our own cooking. In the aviation business, no other testimonial means more.

# Finance and Financial Products

Our largest operation in this sector is Clayton Homes, the country's leading producer of modular and manufactured homes. Clayton was not always number one: A decade ago the three leading manufacturers were Fleetwood, Champion and Oakwood, which together accounted for 44% of the output of the industry. All have since gone bankrupt. Total industry output, meanwhile, has fallen from 382,000 units in 1999 to 60,000 units in 2009.

The industry is in shambles for two reasons, the first of which must be lived with if the U.S. economy is to recover. This reason concerns U.S. housing starts (including apartment units). In 2009, starts were 554,000, by far the lowest number in the 50 years for which we have data. Paradoxically, this is *good* news.

People *thought* it was good news a few years back when housing starts – the supply side of the picture– were running about two million annually. But household formations – the demand side – only amounted to about 1.2 million. After a few years of such imbalances, the country unsurprisingly ended up with far too many houses.

Therewerethreewaystocurethisoverhang: (1) blow up a lot of houses, a tactic similar to the destruction of autos that occurred with the "cash-for-clunkers" program; (2) speed up household formations by, say, encouraging teenagers to cohabitate, a program not likely to suffer from a lack of volunteers or; (3) reduce new housing starts to a number far below the rate of household formations.

Our country has wisely selected the third option, which means that within a year or so residential housing problems should largely be behind us, the exceptions being only high-value houses and those in certain localities where overbuilding was particularly egregious. Prices will remain far below "bubble" levels, of course, but for every seller (or lender) hurt by this there will be a buyer who benefits. Indeed, many families that couldn't afford to buy an appropriate home a few years ago now find it well within their means because the bubble burst.

The second reason that manufactured housing is troubled is specific to the industry: the punitive differential in mortgage rates between factory-built homes and site-built homes. Before you read further, let me underscore the obvious: Berkshire has a dog in this fight, and you should therefore assess the commentary that follows with special care. That warning made, however, let me explain why the rate differential causes problems for both large numbers of lower-income Americans and Clayton.

The residential mortgage market is shaped by government rules that are expressed by FHA, Freddie Mac and Fannie Mae. Their lending standards are all-powerful because the mortgages they insure can typically be securitized and turned into what, in effect, is an obligation of the U.S. government. Currently buyers of conventional site-built homes who qualify for these guarantees can obtain a 30-year loan at about 51⁄4%. In addition, these are mortgages that have recently been purchased in massive amounts by the Federal Reserve, an action that also helped to keep rates at bargain-basement levels.

In contrast, very few factory-built homes qualify for agency-insured mortgages. Therefore, a meritorious buyer of a factory-built home must pay about 9% on his loan. For the all-cash buyer, Clayton's homes offer terrific value. If the buyer needs mortgage financing, however – and, of course, most buyers do – the difference in financing costs too often negates the attractive price of a factory-built home.

Last year I told you why our buyers – generally people with low incomes – performed so well as credit risks. Their attitude was all-important: They signed up to live in the home, not resell or refinance it.

Consequently, our buyers usually took out loans with payments geared to their verified incomes (we weren't making "liar's loans") and looked forward to the day they could burn their mortgage. If they lost their jobs, had health problems or got divorced, we could of course expect defaults. But they seldom walked away simply because house values had fallen. Even today, though job-loss troubles have grown, Clayton's delinquencies and defaults remain reasonable and will not cause us significant problems.

We have tried to qualify more of our customers' loans for treatment similar to those available on the site-built product. So far we have had only token success. Many families with modest incomes but responsible habits have therefore had to forego home ownership simply because the financing differential attached to the factory-built product makes monthly payments too expensive. If qualifications aren't broadened, so as to open low-cost financing to *all* who meet down-payment and income standards, the manufactured-home industry seems destined to struggle and dwindle.

| | PRE-TAX EARNINGS (in millions) | |
|---|---|---|
| | 2009 | 2008 |
| Net investment income | $278 | $330 |
| Life and annuity operation | 116 | 23 |
| Leasing operations | 14 | 87 |
| Manufactured-housing finance (Clayton) | 187 | 206 |
| Other income * | 186 | 141 |
| Income before investment and derivatives gains or losses | $781 | $787 |

*Includes $116 million in 2009 and $92 million in 2008 of fees that Berkshire charges Clayton for the use of Berkshire's credit.

In the following table, Clayton's earnings are net of the company's payment to Berkshire for the use ofits credit. Offsetting this cost to Clayton is an identical amount of income credited to Berkshire's finance operation and included in "Other Income." The cost and income amount was $116 million in 2009 and $92 million in 2008.

The table also illustrates how severely our furniture (CORT) and trailer (XTRA) leasing operations have been hit by the recession. Though their competitive positions remain as strong as ever, we have yet to see any bounce in these businesses.

Even under these conditions, I believe Clayton will operate profitably in coming years, though well below its potential. We couldn't have a better manager than CEO Kevin Clayton, who treats Berkshire's interests as if they were his own. Our product is first-class, inexpensive and constantly being improved. Moreover, we will continue to use Berkshire's credit to support Clayton's mortgage program, convinced as we are of its soundness. Even so, Berkshire can't borrow at a rate approaching that available to government agencies. This handicap will limit sales, hurting both Clayton and a multitude of worthy families who long for a low-cost home.

At the end of 2009, we became a 50% owner of Berkadia Commercial Mortgage (formerly known as Capmark), the country's third-largest servicer of commercial mortgages. In addition to servicing a $235 billion portfolio, the company is an important originator of mortgages, having 25 offices spread around the country. Though commercial real estate will face major problems in the next few years, long-term opportunities for Berkadia are significant.

Our partner in this operation is Leucadia, run by Joe Steinberg and Ian Cumming, with whom we had a terrific experience some years back when Berkshire joined with them to purchase Finova, a troubled finance business. In resolving that situation, Joe and Ian did far more than their share of the work, an arrangement I always encourage. Naturally, I was delighted when they called me to partner again in the Capmark purchase. Our first venture was also christened Berkadia. So let's call this one Son of Berkadia. Someday I'll be writing you about Grandson of Berkadia.

# Investments

To the right we show our common stock investments that at yearend had a market value of more than $1 billion.

In addition, we own positions in non-traded securities of Dow Chemical, General Electric, Goldman Sachs, Swiss Re and Wrigley with an aggregate cost of $21.1 billion and a carrying value of $26.0 billion. We purchased these five positions in the last 18 months. Setting aside the significant equity potential they provide us, these holdings deliver us an aggregate of $2.1 billion annually in dividends and interest. Finally, we owned 76,777,029 shares (22.5%) of BNSF at yearend, which we then carried at $85.78 per share, but which have subsequently been melded into our purchase of the entire company.

In 2009, our largest sales were in ConocoPhillips, Moody's, Procter & Gamble and Johnson & Johnson (sales of the latter occurring after we had built our position earlier in the year). Charlie and I believe that all of these stocks will likely trade higher in the future. We made some sales early in 2009 to raise cash for our Dow and Swiss Re purchases and late in the year made other sales in anticipation of our BNSF purchase.

We told you last year that very unusual conditions then existed in the corporate and municipal bond markets and that these securities were ridiculously cheap relative to U.S. Treasuries. We backed this view with some purchases, but I should have done far more. Big opportunities come infrequently. When it's raining gold, reach for a bucket, not a thimble.

We entered 2008 with $44.3 billion of cash-equivalents, and we have since retained operating earnings of $17 billion. Nevertheless, at yearend 2009, our cash was down to $30.6 billion (with $8 billion earmarked for the BNSF acquisition). We've put a lot of money to work during the chaos of the last two years. It's been an ideal period for investors: A climate of fear is their best friend. Those who invest only when commentators are upbeat end up paying a heavy price for meaningless reassurance. In the end, what counts in investing is what you pay for a business – through the purchase of a small piece of it in the stock market – and what that business earns in the succeeding decade or two.

## STOCK INVESTMENTS

12/31/09

| Shares | Company | Percentage of Company Owned | Cost * (in millions) | Market (in millions) |
|---|---|---|---|---|
| 151,610,700 | American Express Company | 12.7 | $ 1,287 | $ 6,143 |
| 225,000,000 | BYD Company, Ltd | 9.9 | 232 | 1,986 |
| 200,000,000 | The Coca-Cola Company | 8.6 | 1,299 | 11,400 |
| 37,711,330 | ConocoPhillips | 2.5 | 2,741 | 1,926 |
| 28,530,467 | Johnson & Johnson | 1.0 | 1,724 | 1,838 |
| 130,272,500 | Kraft Foods Inc | 8.8 | 4,330 | 3,541 |
| 3,947,554 | POSCO | 5.2 | 768 | 2,092 |
| 83,128,411 | The Procter & Gamble Company | 2.9 | 533 | 5,040 |
| 25,108,967 | Sanofi-Aventis | 1.9 | 2,027 | 1,979 |
| 234,247,373 | Tesco plc | 3.0 | 1,367 | 1,620 |
| 76,633,426 | U.S. Bancorp | 4.0 | 2,371 | 1,725 |
| 39,037,142 | Wal-Mart Stores, Inc | 1.0 | 1,893 | 2,087 |
| 334,235,585 | Wells Fargo & Company | 6.5 | 7,394 | 9,021 |
| | Others | | 6,680 | 8,636 |
| | Total Common Stocks Carried at Market | | $34,646 | $59,034 |

*This is our actual purchase price and also our tax basis; GAAP "cost" differs in a few cases because of write-ups or write-downs that have been required.

Last year I wrote extensively about our derivatives contracts, which were then the subject of both controversy and misunderstanding. For that discussion, please go to www.berkshirehathaway.com. We have since changed only a few of our positions. Some credit contracts have run off. The terms of about 10% of our equity put contracts have also changed: Maturities have been shortened and strike prices materially reduced. In these modifications, no money changed hands. A few points from last year's discussion are worth repeating:

(1) Though it's no sure thing, I expect our contracts in aggregate to deliver us a profit over their lifetime, even when investment income on the huge amount of float they provide us is excluded in the calculation. Our derivatives float – which is not included in the $62 billion of insurance float I described earlier – was about $6.3 billion at yearend.

(2) Only a handful of our contracts require us to post collateral under any circumstances. At last year's low point in the stock and credit markets, our posting requirement was $1.7 a small fraction of the derivatives-related float we held. When we do post collateral, let me add, the securities we put up continue to earn money for our account.

(3) Finally, you should expect large swings in the carrying value of these contracts, items that can affect our reported quarterly earnings in a huge way but that do not affect our cash or investment holdings. That thought certainly fit 2009's circumstances.

Here are the pre-tax quarterly gains and losses from derivatives valuations that were part of our reported earnings last year:

| Quarter | $ Gain (Loss) in Billions |
|---|---|
| 1 | (1.517) |
| 2 | 2.357 |
| 3 | 1.732 |
| 4 | 1.052 |

As we've explained, these wild swings neither cheer nor bother Charlie and me. When we report to you, we will continue to separate out these figures (as we do realized investment gains and losses) so that you can more clearly view the earnings of our operating businesses. We are delighted that we hold the derivatives contracts that we do. To date we have significantly profited from the float they provide. We expect also to earn further investment income over the life of our contracts.

We have long invested in derivatives contracts that Charlie and I think are mispriced, just as we try to invest in mispriced stocks and bonds. Indeed, we first reported to you that we held such contracts in early 1998.

The dangers that derivatives pose for both participants and society – dangers of which we've long warned, and that can be dynamite – arise when these contracts lead to leverage and/or counterparty risk that is extreme. At Berkshire nothing like that has occurred – nor will it.

It's my job to keep Berkshire far away from such problems. Charlie and I believe that a CEO must not delegate risk control. It's simply too important. At Berkshire, I both initiate and monitor every derivatives contract on our books, with the exception of operations-related contracts at a few of our subsidiaries, such as MidAmerican, and the minor runoff contracts at General Re. If Berkshire ever gets in trouble, it will be my fault. It will not be because of misjudgments made by a Risk Committee or Chief Risk Officer.

In my view a board of directors of a huge financial institution is *derelict* if it does not insist that its CEO bear full responsibility for risk control. If he's incapable of handling that job, he should look for other employment. And if he fails at it – with the government thereupon required to step in with funds or guarantees – the financial consequences for him and his board should be severe.

It has not been shareholders who have botched the operations of some of our country's largest financial institutions. Yet they have borne the burden, with 90% or more of the value of their holdings wiped out in mostcases of failure. Collectively, they have lost more than $500 billion in just the four largest financial fiascos of the last two years. To say these *owners* have been "bailed-out" is to make a mockery of the term.

The CEOs and directors of the failed companies, however, have largely gone unscathed. Their fortunes may have been diminished by the disasters they oversaw, but they still live in grand style. It is the behavior of these CEOs and directors that needs to be changed: If their institutions and the country are harmed by their recklessness, they should pay a heavy price – one not reimbursable by the companies they've damaged nor by insurance. CEOs and, in many cases, directors have long benefitted from oversized financial carrots; some *meaningful* sticks now need to be part of their employment picture as well.

# An Inconvenient Truth (Boardroom Overheating)

Our subsidiaries made a few small "bolt-on" acquisitions last year for cash, but our blockbuster deal with BNSF required us to issue about 95,000 Berkshire shares that amounted to 6.1% of those previously outstanding. Charlie and I enjoy issuing Berkshire stock about as much as we relish prepping for a colonoscopy.

The reason for our distaste is simple. If we wouldn't dream of selling Berkshire in its entirety at the current market price, why in the world should we "sell" a significant part of the company at that same inadequate price by issuing our stock in a merger?

In evaluating a stock-for-stock offer, shareholders of the target company quite understandably focus on the market price of the acquirer's shares that are to be given them. But they also expect the transaction to deliver them the *intrinsic* value of their own shares – the ones they are giving up. If shares of a prospective acquirer are selling below their intrinsic value, it's impossible for that buyer to make a sensible deal in an all-stock deal. You simply can't exchange an undervalued stock for a fully-valued one without hurting your shareholders.

Imagine, if you will, Company A and Company B, of equal size and both with businesses intrinsically worth $100 per share. Both of their stocks, however, sell for $80 per share. The CEO of A, long on confidence and short on smarts, offers 1¼ shares of A for each share of B, correctly telling his directors that B is worth $100 per share. He will neglect to explain, though, that what he is giving will cost his shareholders $125 in intrinsic value. If the directors are mathematically challenged as well, and a deal is therefore completed, the shareholders of B will end up owning 55.6% of A & B's combined assets and A's shareholders will own 44.4%. Not everyone at A, it should be noted, is a loser from this nonsensical transaction. Its CEO now runs a company twice as large as his original domain, in a world where size tends to correlate with both prestige and compensation.

If an acquirer's stock is overvalued, it's a different story: Using it as a currency works to the acquirer's advantage. That's why bubbles in various areas of the stock market have invariably led to serial issuances of stock by sly promoters. Going by the market value of their stock, they can afford to overpay because they are, in effect, using counterfeit money. Periodically, many air-for-assets acquisitions have taken place, the late 1960s having been a particularly obscene period for such chicanery. Indeed, certain large companies were built in this way. (No one involved, of course, ever publicly acknowledges the reality of what is going on, though there is plenty of private snickering.)

In our BNSF acquisition, the selling shareholders quite properly evaluated our offer at $100 per share. The cost to us, however, was somewhat higher since 40% of the $100 was delivered in our shares, which Charlie and I believed to be worth more than their market value. Fortunately, we had long owned a substantial amount of BNSF stock that we purchased in the market for cash. All told, therefore, only about 30% of our cost overall was paid with Berkshire shares.

In the end, Charlie and I decided that the disadvantage of paying 30% of the price through stock was offset by the opportunity the acquisition gave us to deploy $22 billion of cash in a business we understood and liked for the long term. It has the additional virtue of being run by Matt Rose, whom we trust and admire. We also like the prospect of investing additional billions over the years at reasonable rates of return. But the final decision was a close one. If we had needed to use more stock to make the acquisition, it would in fact have made no sense. We would have then been giving up more than we were getting.

I have been in dozens of board meetings in which acquisitions have been deliberated, often with the directors being instructed by high-priced investment bankers (are there any other kind?). Invariably, the bankers give the board a detailed assessment of the value of the company being purchased, with emphasis on why it is worth far more than its market price. In more than fifty years of board memberships, however, never have I heard the investment bankers (or management!) discuss the true value of what is being given. When a deal involved the issuance of the acquirer's stock, they simply used market value to measure the cost. *They did this even though they would have argued that the acquirer's stock price was woefully inadequate – absolutely no indicator of its real value – had a takeover bid for the acquirer instead been the subject up for discussion.*

When stock is the currency being contemplated in an acquisition and when directors are hearing from an advisor, it appears to me that there is only one way to get a rational and balanced discussion. Directors should hire a second advisor to make the case *against* the proposed acquisition, with its fee contingent on the deal not going through. Absent this drastic remedy, our recommendation in respect to the use of advisors remains: "Don't ask the barber whether you need a haircut."

I can't resist telling you a true story from long ago. We owned stock in a large well-run bank that for decades had been statutorily prevented from acquisitions. Eventually, the law was changed and our bank immediately began looking for possible purchases. Its managers – fine people and able bankers – not unexpectedly began to behave like teenage boys who had just discovered girls.

They soon focused on a much smaller bank, also well-run and having similar financial characteristics in such areas as return on equity, interest margin, loan quality, etc. Our bank sold at a modest price (that's why we had bought into it), hovering near book value and possessing a very low price/earnings ratio. Alongside, though, the small-bank owner was being wooed by other large banks in the state and was holding out for a price close to three times book value. Moreover, he wanted stock, not cash.

Naturally, our fellows caved in and agreed to this value-destroying deal. "We need to show that we are in the hunt. Besides, it's only a small deal," they said, as if only *major* harm to shareholders would have been a legitimate reason for holding back. Charlie's reaction at the time: "Are we supposed to applaud because the dog that fouls our lawn is a Chihuahua rather than a Saint Bernard?" The seller of the smaller bank – no fool – then delivered one final demand in his negotiations. "After the merger," he in effect said, perhaps using words that were phrased more diplomatically than these, "I'm going to be a large shareholder of your bank, and it will represent a huge portion of my net worth. You have to promise me, therefore, that you'll never again do a deal this dumb."

Yes, the merger went through. The owner of the small bank became richer, we became poorer, and the managers of the big bank – newly bigger – lived happily ever after.

# The Annual Meeting

Our best guess is that 35,000 people attended the annual meeting last year (up from 12 – *no* zeros omitted – in 1981). With our shareholder population much expanded, we expect even more this year. Therefore, we will have to make a few changes in the usual routine. There will be no change, however, in our enthusiasm for having you attend. Charlie and I like to meet you, answer your questions and – best of all – have you *buy* lots of goods from our businesses.

The meeting this year will be held on Saturday, May 1st. As always, the doors will open at the Qwest Center at 7 a.m., and a new Berkshire movie will be shown at 8:30. At 9:30 we will go directly to the question-and-answer period, which (with a break for lunch at the Qwest's stands) will last until 3:30. After a short recess, Charlie and I will convene the annual meeting at 3:45. If you decide to leave during the day's question periods, please do so while *Charlie* is talking. (Act fast; he can be terse.)

The best reason to exit, of course, is to *shop*. We will help you do that by filling the 194,300-squarefoot hall that adjoins the meeting area with products from dozens of Berkshire subsidiaries. Last year, you did your part, and most locations racked up record sales. But you can do better. (A friendly warning: If I find sales are lagging, I get testy and lock the exits.)

GEICO will have a booth staffed by a number of its top counselors from around the country, all of them ready to supply you with auto insurance quotes. In most cases, GEICO will be able to give you a shareholder discount (usually 8%). This special offer is permitted by 44 of the 51 jurisdictions in which we operate. (One supplemental point: The discount is not additive if you qualify for another, such as that given certain groups.) Bring the details of your existing insurance and check out whether we can save you money. For at least 50% of you, I believe we can.

Be sure to visit the Bookworm. Among the more than 30 books and DVDs it will offer are two new books by my sons: Howard's *Fragile*, a volume filled with photos and commentary about lives of struggle around the globe and Peter's *Life Is What You Make It.* Completing the family trilogy will be the debut of my sister Doris's biography, a story focusing on her remarkable philanthropic activities. Also available will be *Poor Charlie's Almanack*, the story of my partner. This book is something of a publishing miracle – never advertised, yet year after year selling many thousands of copies from its Internet site. (Should you need to ship your book purchases, a nearby shipping service will be available.)

If you are a big spender – or, for that matter, merely a gawker – visit Elliott Aviation on the east side of the Omaha airport between noon and 5:00 p.m. on Saturday. There we will have a fleet of NetJets aircraft that will get your pulse racing.

An attachment to the proxy material that is enclosed with this report explains how you can obtain the credential you will need for admission to the meeting and other events. As for plane, hotel and car reservations, we have again signed up American Express (800-799-6634) to give you special help. Carol Pedersen, who handles these matters, does a terrific job for us each year, and I thank her for it. Hotel rooms can be hard to find,but work with Carol and you will get one.

At Nebraska Furniture Mart, located on a 77-acre site on 72nd Street between Dodge and Pacific, we will again be having "Berkshire Weekend" discount pricing. To obtain the Berkshire discount, you must make your purchases between p.m. Monday through Saturday, and 10 a.m. to 6 p.m. on Sunday. On Saturday this year, from 5:30 p.m. to 8 p.m., NFM is having a Berkyville BBQ to which you are all invited.

At Borsheims, we will again have two shareholder-only events. The first will be a cocktail reception from 6 p.m. to 10 p.m. on Friday, April 30th. The second, the main gala, will be held on Sunday, May 2nd, from 9 a.m. to 4 p.m. On Saturday, we will be open until 6 p.m.

We will have huge crowds at Borsheims throughout the weekend. For your convenience, therefore, shareholder prices will be available from Monday, April 26th through Saturday, May 8th. During that period, please identify yourself as a shareholder by presenting your meeting credentials or a brokerage statement that shows you are a Berkshire holder. Enter with rhinestones; leave with diamonds. My daughter tells me that the more you buy, the more you save (kids say the darnedest things).

On Sunday, in the mall outside of Borsheims, a blindfolded Patrick Wolff, twice U.S. chess champion, will take on all comers – who will have their eyes wide open – in groups of six. Nearby, Norman Beck, a remarkable magician from Dallas, will bewilder onlookers.

Our special treat for shareholders this year will be the return of my friend, Ariel Hsing, the country's top-ranked junior table tennis player (and a good bet to win at the Olympics some day). Now 14, Ariel came to the annual meeting four years ago and demolished all comers, including me. (You can witness my humiliating defeat on YouTube; just type in Ariel Hsing Berkshire.)

Naturally, I've been plotting a comeback and will take her on outside of Borsheims at 1:00 p.m. on Sunday. It will be a three-point match, and after I soften her up, all shareholders are invited to try their luck at similar three-point contests. Winners will be given a box of See's candy. We will have equipment available, but bring your own paddle if you think it will help. (It won't.)

Gorat's will again be open exclusively for Berkshire shareholders on Sunday, May 2nd, and will beserving from 1 p.m. until 10 p.m. Last year, though, it was overwhelmed by demand. With many more diners expected this year, I've asked my friend, Donna Sheehan, at Piccolo's – another favorite restaurant of mine – to serve shareholders on Sunday as well. (Piccolo's giant root beer float is mandatory for any fan of fine dining.) I plan to eat at both restaurants: All of the weekend action makes me *really* hungry, and I have favorite dishes at each spot. Remember: To make a reservation at Gorat's, call 402-551-3733 on April 1st (*but not before*) and at Piccolo's call 402-342-9038.

Regrettably, we will not be able to have a reception for international visitors this year. Our count grew to about 800 last year, and my simply signing one item per person took about 2 1/2 hours. Since we expect even more international visitors this year, Charlie and I decided we must drop this function. But be assured, we welcome every international visitor who comes.

Last year we changed our method of determining what questions would be asked at the meeting and received many dozens of letters applauding the new arrangement. We will therefore again have the same three financial journalists lead the question-and-answer period, asking Charlie and me questions that shareholders have submitted to them by e-mail.

The journalists and their e-mail addresses are: Carol Loomis, of Fortune, who may be e-mailed at cloomis@fortunemail.com; Becky Quick, of CNBC, at BerkshireQuestions@cnbc.com, and Andrew Ross Sorkin, of The New York Times, at arsorkin@nytimes.com. From the questions submitted, each journalist will choose the dozen or so he or she decides are the most interesting and important. The journalists have told me your question has the best chance of being selected if you keep it concise and include no more than two questions in any e-mail you send them. (In your e-mail, let the journalist know if you would like your name mentioned if your question is selected.)

Neither Charlie nor I will get so much as a clue about the questions to be asked. We know the journalists will pick some tough ones and that's the way we like it.

We will again have a drawing at 8:15 on Saturday at each of 13 microphones for those shareholders wishing to ask questions themselves. At the meeting, I will alternate the questions asked by the journalists with those from the winning shareholders. We've added 30 minutes to the question time and will probably have time for about 30 questions from each group.

At 86 and 79, Charlie and I remain lucky beyond our dreams. We were born in America; had terrific parents who saw that we got good educations; have enjoyed wonderful families and great health; and came equipped with a "business" gene that allows us to prosper in a manner hugely disproportionate to that experienced by many people who contribute as much or more to our society's well-being. Moreover, we have long had jobs that we love, in which we are helped in countless ways by talented and cheerful associates. Indeed, over the years, our work has become ever more fascinating; no wonder we tap-dance to work. If pushed, we would gladly pay substantial sums to have our jobs (but don't tell the Comp Committee).

Nothing, however, is more fun for us than getting together with our shareholder-partners at Berkshire's annual meeting. So join us on May 1st at the Qwest for our annual Woodstock for Capitalists. We'll see you there February 26, 2010

Warren E. Buffet
Chairman of the Board

P.S. Come by rail.